

Marketing Dynamics



Brenda Clark
Jennie Sobel
Cynthia Gendall Basteri

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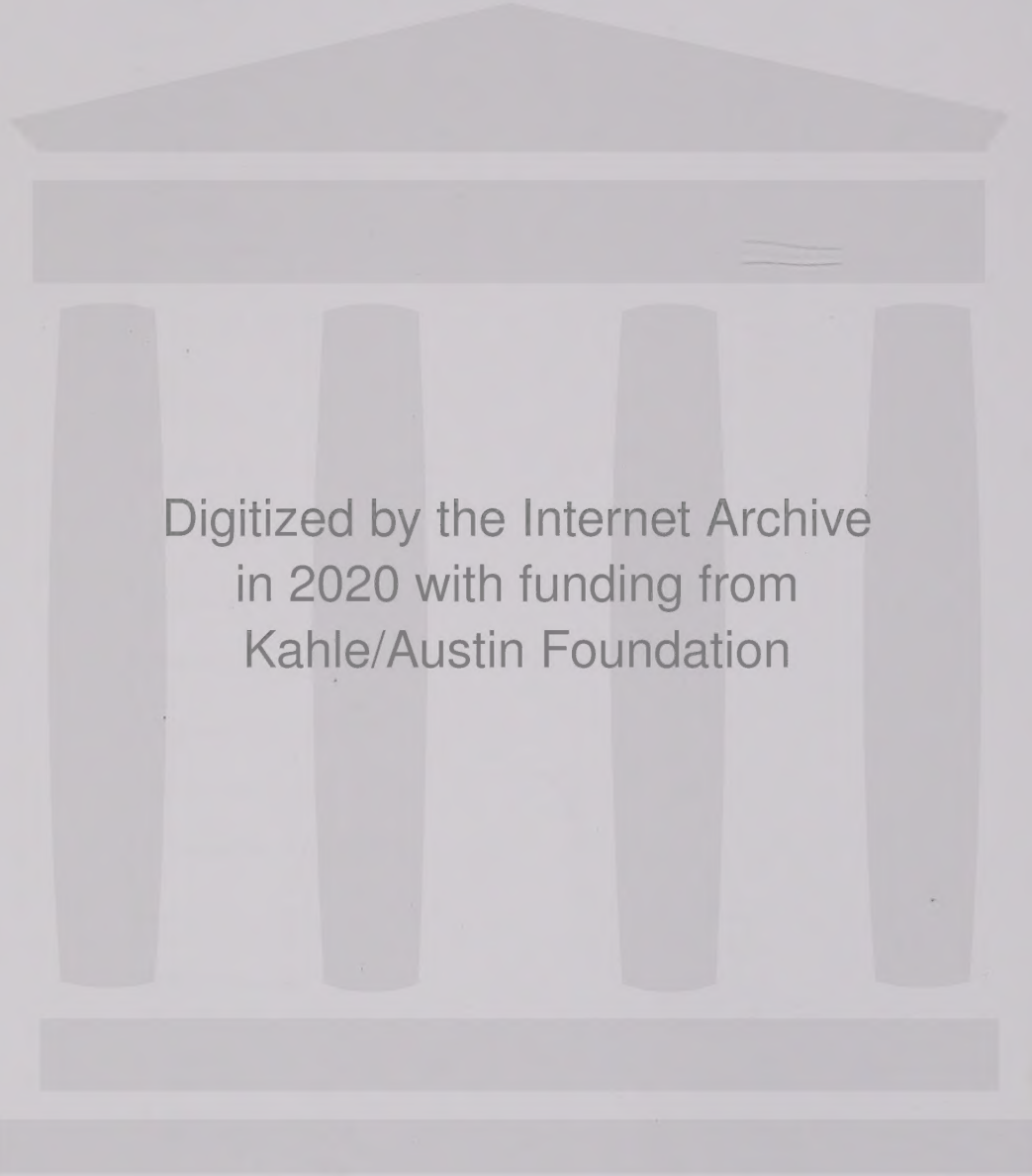
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Marketing Dynamics

Brenda Clark, Ed.D.

Marketing Instructor
Jenison High School
Jenison, Michigan

Jennie Sobel, M.B.A.

Marketing Teacher-Coordinator, retired
Robert E. Lee High School
San Antonio, Texas

Cynthia Gendall Basteri, M.A.

Director of Community Services
Tewksbury Public Schools
Tewksbury, Massachusetts

Contributing Writers

Mary G. Wolfe, M.B.A.

St. Michaels, Maryland

Judy Commers, M.A.E.

Marketing Education Teacher-Coordinator
Porter County Career Center
Valparaiso, Indiana

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NASCAR has taken a leading role in promoting automobile safety to millions of Americans on and off the track. As a member of an ongoing traffic safety alliance, they have partnered with Toyota Motorsports and the U.S. Department of Transportation to urge drivers to use seat belts and practice safe driving habits. In addition, several NASCAR safety innovations have been adopted by vehicle and parts manufacturers to improve the performance and safety of passenger vehicles.

Introduction

Welcome to the exciting and dynamic world of marketing. This textbook will help you explore that world. The book is organized into nine parts. Each part opens with a big question. The chapters of the part are designed to answer that question. Throughout each chapter are questions called "Reality Checks." These questions are designed to help you apply the concepts you just learned to the world around you.

What Is Marketing?

Part 1 sets the stage by presenting some of the basic concepts in marketing. How does a market economy work? Part 2 will give you a good foundation in economics. Marketing is an essential part of the free market economy in the United States. Understanding economic basics will help you in any career you pursue.

Who Are Your Customers?

The customer and the marketplace are at the center of marketing activities. Part 3 will help you understand customers. You will also learn how marketers think about a market. Competition is another part of a dynamic marketplace. You will learn the role of competition and how marketers respond to competitors.

The Four Ps

In Parts 4, 5, 6, and 7, you will learn about the Four Ps of marketing: product, place, price, and promotion. What should you sell? Part 4 examines the product P. You will learn what a product actually is, the ways to develop new products, and the product life cycle.

How do products get to consumers? Part 5 introduces you to the place P, which involves the ways products are delivered to customers (distribution). Concepts of wholesaling and retailing are also discussed.

What price should you charge? Part 6 explains some of the basics of profit, loss, and business risk because you need to understand these concepts before you tackle the price P. Two chapters then focus on price and how prices are set.

How do you communicate with customers? Part 7 describes the promotion P. Promotion is communication with customers, employees, and the public. There are four elements of promotion: advertising, sales promotion, public relations, and personal selling. How can you sell products effectively? Part 8 focuses on sales.

How Can You Plan for Success?

How can you plan for success? Part 9 presents ways to assure your future success. If being your own boss interests you, Chapter 52 introduces you to the world of entrepreneurship and running your own business.

At the end of each chapter are activities that will help you explore a variety of marketing careers. Several profiles throughout the text will show you how people use marketing concepts in their careers.

As you can see, the study of marketing will introduce you to many new and exciting concepts and career ideas. This textbook will provide you with information you can use no matter what career you choose. It will also provide the foundation for a career or future study in marketing.

About the Authors

Cynthia Gendall Basteri is currently Director of Community Services for Tewksbury Public Schools, Massachusetts. Previously, she taught marketing for 26 years. In addition to serving as a Competitive Events Director at the district, state, and national levels, she served on DECA's National Task Force for Competitive Events and the Secondary Program Advisory Council. She earned both her bachelor's degree in Mathematics and master's degree in Occupational Education/Administration from Fitchburg State College. She is currently working towards her doctorate degree at Nova Southeastern University.

Brenda Clark has taught marketing for over 22 years for the Jenison, Michigan Public Schools. She has also been a DECA advisor and has had students win state and national recognition. In Michigan, she has worked with marketing and hospitality instructors on curriculum development. She was a national trainer for MarkED's Model Program for five years and has consulted with many states on marketing education. She has also taught at the community college and university levels. She earned her bachelor's degree in Marketing Education, a master's degree in Educational Leadership, and an Ed.D. in Educational Leadership with a concentration in Career and Technical Education from Western Michigan University.

Jennie Sobel was a marketing teacher-coordinator and DECA advisor at Robert E. Lee High School, San Antonio, Texas, for over 28 years. Under her supervision, Lee High School established one of the first school stores in the San Antonio area. She served on the State DECA Board of

Directors and as Director of District 2 DECA in Texas for eight years. Her work experience includes retail experience as a buyer for Joske's of Texas. During 1995 – 1998, she was chairperson of the Marketing Writing Team for the Texas Education Agency, which updated the Essential Elements into Essential Knowledge and Skills statements. She earned her B.S. in Business Administration from Trinity University, certification in Distributive Education from the University of North Texas, and an M.B.A. from the University of Texas in San Antonio.

About the Contributing Writers

Judy Commers has been a marketing teacher-coordinator and DECA advisor for Indiana public schools for over 31 years. For over 14 years, she has supervised a student-based enterprise. She also teaches business and marketing at the community college level and is an instructor for the Indiana Marketing Academy, which teachers attend for college credit. She received her bachelor's degree in Business and Distributive Education and an M.A.E. in Vocational Business and Distributive Education from Ball State University.

Mary Wolfe has worked in all segments of the fashion industry, from textile research to retail sales. She designed for a national sportswear firm, and then opened her own apparel business. She was vice president of marketing for an architectural signage sales and marketing company and has taught fashion marketing courses at the University of Delaware. She received her bachelor's degree in Textiles and Clothing from Iowa State University and an M.B.A. from West Chester University of Pennsylvania.

Reviewers

We would like to thank the following people who reviewed the final manuscript:

Dr. Elaine Adams

Associate Professor of Career and Technical Education

The University of Georgia
Athens, Georgia

Joe Haley

Marketing Teacher-Coordinator
Sidney Lanier High School
Montgomery, Alabama

Sandra Moore

Associate Professor of Business Administration
Ivy Tech State College
Valparaiso, Indiana

Robert Patton

Director of Marketing
Chelsea & Scott
Lake Bluff, Illinois

Elizabeth S. Pitts

Marketing Education Coordinator
North Hall High School
Gainesville, Georgia

Dr. Carlos Rodriguez

Professor of Marketing
School of Management
Delaware State University
Dover, Delaware

Kate Rooney

Former Vice President, Education and Workforce Development
Retailers Association of Massachusetts
Boston, Massachusetts

Tom Scharine

Marketing Teacher
Oregon High School
Oregon, Wisconsin

James H. Smith

Adjunct Professor, MBA program, Valparaiso University

General Manager, Marketing and Transportation,
BP (formerly Amoco), retired
Chicago, Illinois

We would like to thank the following people who reviewed material during the development phase of the program:

Sharon Acuff

Marketing Teacher/Coordinator
Bristol Virginia City Schools
Bristol, Virginia

Sandra Bell-Duckworth

Former Marketing Education Coordinator
Westerville North High School
Westerville, Ohio

Chris Black

Marketing/Economics Teacher, retired
Bingham High School
South Jordan, Utah

Dr. Ada Brown

Marketing and Business Management Instructor
Washington-Homes Technical Center
Chipley, Florida

John Bucci

Marketing Teacher
Arvada High School
Arvada, Colorado

Tim Cornick

Marketing Education Instructor, retired
Wayne Memorial High School
Wayne, Michigan

Don Hayes

Economics Instructor
Lincoln-Way High School
New Lenox, Illinois

Tracie Holub

Career and Technology Education Director
Lamar Consolidated ISD
Rosenberg, Texas

Barbara J. Martin

Entrepreneurship/Marketing Education Instructor
W.T. Loften High School
Gainesville, Florida

Dr. Frank Nelson

Business and Marketing Professor
Business and Marketing Teacher-Educator
University of Central Oklahoma
Edmond, Oklahoma

Connie Ottman

Marketing Instructor
Mid Florida Tech
Orlando, Florida

Gay Sabom

Marketing Education Coordinator
Northbrook High School
Houston, Texas

Gloria Shimanek

Department Chair, Career and Technology
Marketing Education Coordinator
Pleasant Grove High School
Texarkana, Texas

Virginique Whitmore

Marketing Education Teacher Coordinator
Central Hower High School
Akron, Ohio

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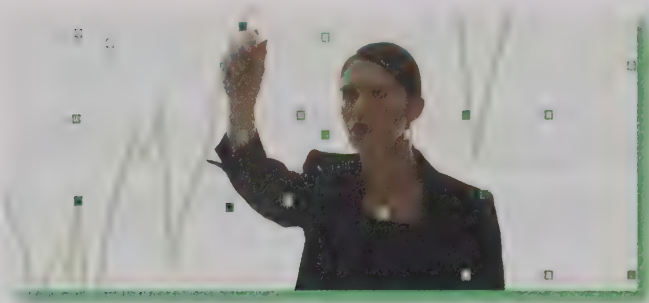


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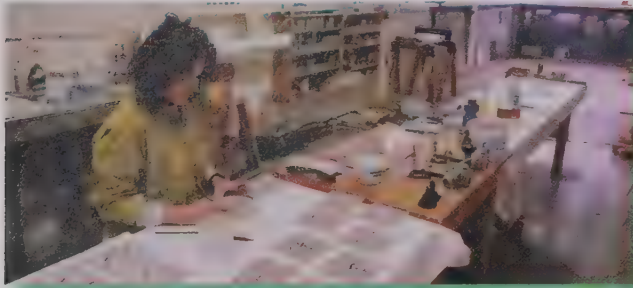
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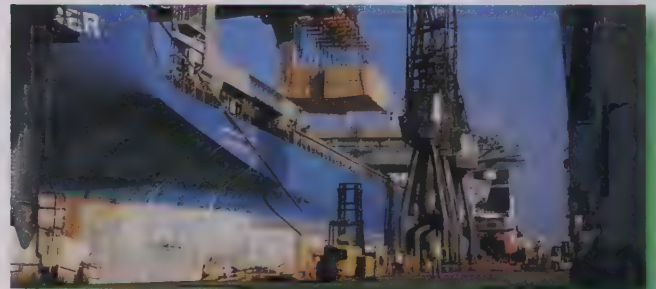


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What is marketing?





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Marketing Is Dynamic!

Marketing Terms

marketing
customer
target market
Four Ps
product
good
service
idea
place
distribution
price
promotion
marketing mix

After studying this chapter,
you will be able to

- state the main goal of marketing.
- describe each of the Four Ps.
- distinguish among good, service, and idea.
- explain how marketers determine the marketing mix.

Have you seen any marketing activities recently? Maybe you saw a TV commercial advertising a new car. Maybe a sales associate helped you with a purchase at the mall, 1-1. Advertising and selling are the most visible marketing activities. However, marketing is much more than advertising and selling. Here are some other marketing activities:

- developing a new video game
- asking customers their opinion of a new beverage
- arranging financing for a purchase
- delivering beverages to a store
- ordering a new shipment of jeans



1-1

Selling and advertising are the most visible forms of marketing.

- displaying the new jeans in the store window
- deciding the price to charge for the jeans

Marketing includes these activities and many others. Marketing is essential to business success.



Reality Check

How many marketing activities have you seen this week? Give five specific examples.

Marketing Defined

How would you define marketing? Take a few minutes to jot down your definition of marketing. Then read these current definitions:

- The job of marketing is “to sell lots of stuff and make lots of money.” (Sergio Zyman, former chief marketing officer at the Coca-Cola Company)

- Marketing is “the whole firm, taken from the customer’s point of view.” (Peter Drucker, business management consultant)
- The purpose of marketing is “to reach customers and compel them to purchase, use, and repurchase your product.” (Alexander Hiam, marketing consultant)
- “Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.” (American Marketing Association, official definition of marketing, adopted in 2004, used by permission)

If marketing could be easily defined in one sentence, there would be no need for a whole textbook! However, here is a basic definition to keep in mind, as you proceed through the book and learn the details.

Marketing consists of dynamic activities that focus on the customer to generate a profitable exchange. The goal of marketing is to meet customers’ needs and wants with products that customers can and will buy. The rest of the book will explore and clarify these ideas.

Marketing Is Dynamic

What makes marketing dynamic? The word *dynamic* describes something that is constantly changing. The needs and wants of customers are constantly changing. The goal of marketing is to meet customers’ needs and wants with products they will buy. Therefore, marketing must constantly change to meet those needs and wants.

Why do customers’ needs and wants change? One reason is that customers change. As customers get older, their needs and wants change, 1-2. Think of the things you wanted and needed in kindergarten. Do you want and need the same things now?



1-2

How have your wants and needs changed since you were a child?

Customers' needs and wants also change because the world that customers live in is changing. Changes occur in the economy, technology, and social trends. Changes in technology provide the clearest example. In the 1970s, very few people used cell phones because they were very expensive. By the 1990s, technological improvements made cell phones affordable. By 2000, more than 20 million people had cell phones. In less than thirty years, the market for cell phones changed from zero to over 20 million!

Marketing Is Customer-Focused

A **customer** is an individual or group who buys products. A customer can be an individual person, a business, a nonprofit organization, or a government. For example, when you buy jeans at the local jeans store,

you (an individual person) are the customer. When a manufacturer buys denim to make jeans, the manufacturer (a business) is the customer. When a school buys food for the cafeteria, the school (an organization) is the customer. When the government buys equipment for the military, the government is the customer.

In order to be successful, a business has to sell its products. In order to be able to sell its products, the customers have to want to buy the products. In order for customers to want to buy products, the products have to meet the customer's needs and wants. As a result, the main goal of marketing is to meet customers' needs and wants. Marketers focus on learning what customers need and want. They then develop and market products that meet those needs and wants.

A **target market** is the specific group of customers whose needs a company will focus on satisfying, 1-3. There are many kinds

**1-3**

A target market is the group of customers whose needs and wants you will try to satisfy. Teens are a popular target market.

of target markets. Think of the potential customers for clothing. There are many groups of customers with different clothing needs. For example, teenagers need different kinds of clothing from business people who work in offices. Babies need different clothing from adults. You will learn more about target markets in Chapter 4 and Part 3.

Marketing Is Relationships

Marketing is based on the relationship between the buyer and the seller. For some businesses, the relationship is short. For others, a long-term relationship leads to customers who are more satisfied and loyal to the business. Research has shown that it is cheaper to keep a current customer than to get a new customer. As a result, many businesses are focusing on developing and maintaining relationships with their customers.



Reality Check

Think of something that you purchased recently. How did that product meet your needs and wants?

One way salespeople develop relationships is to contact the customer after the sale to make sure the product is functioning properly and meeting the customer's needs. If there are any problems, the salesperson can correct them at that time. Salespeople might send birthday greetings and notices of sales of items that are of special interest to each customer. For example, Amazon.com customers can sign up for personalized recommendations based on their interests and preferences.

Many businesses reward repeat customers with discounts or free products. Programs that offer such rewards include the airlines' "frequent flier" programs. Many bookstores, coffee shops, and sandwich cafes also offer frequent buyer programs. Through these programs, the businesses establish long-term relationships and develop customer loyalty.



Reality Check

Do you or does someone you know belong to any frequent buyer programs? Name the business that offers it and describe the program.

Marketing Is International

In the twenty-first century, people around the world are linked by telephone, fax, Internet, and jet travel. Japanese products, such as the Sony Walkman, are available at your local mall. A Japanese student who lives in Tokyo can buy a hamburger at a McDonald's Restaurant near his or her home, 1-4. Through the Internet, people can buy products from anywhere in the world.



1-4

Marketing is international. Sony products can be purchased in the United States. A McDonald's sandwich can be purchased in Japan.



Reality Check

Find the "Made in" tag on an article of clothing or a product that you have with you. Name the country where the item was made.

Marketing Is the Four Ps

How can a marketer meet customer needs and make a profit? There must be hundreds of ways to meet this goal. Marketers meet this goal by developing a plan of action. Each plan of action consists of four elements called the Four Ps. The **Four Ps** are product, place, price, and promotion, 1-5.

Product

A **product** is anything that can be bought or sold. Products include goods, services, and ideas. A **good** is a physical item, something that you can touch. Examples of goods include jeans, snacks, and cell phones.

The Four Ps

Product

Goods, services, ideas



Price

Amount of money exchanged or requested for a product



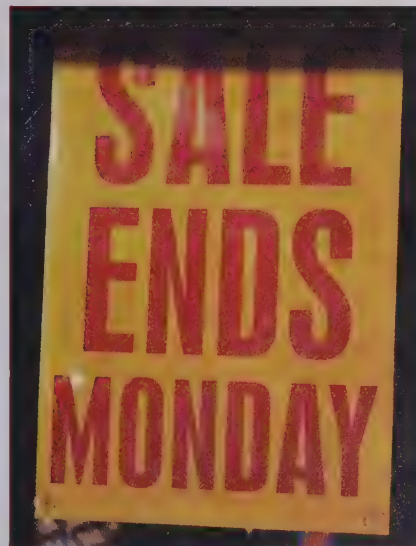
Place

Getting products to customers



Promotion

Telling people about the product, price, place, or company



A **service** is an action that is done for you, 1-6. You cannot touch a service or take it with you. Examples of services include a haircut, a concert, and medical care. An **idea** is a concept, cause, issue, image, or philosophy that can be marketed. Examples of ideas include *contribute to charity*, *buckle up for safety*, and *vote for this candidate*. Image has become a very important product. Marketers sell the image of goods and services, the business itself, and people.

Marketers change products to meet customer needs and wants. For example, some kitchen toolmakers have developed special grips to help people who have trouble grasping regular kitchen tools. For another example, the fabric denim has become so

popular, that clothing manufacturers make a wide variety of clothing and accessories from that material.



Reality Check

Think of a product that you use. How would you change it to better meet your needs? How would you change it to meet another person's needs?

Place

Place involves making products available to customers. Place decisions involve determining when, where, and how products get to customers. Place includes decisions about where to locate stores and the decisions related to retailing, 1-7. Marketers try to make products available to customers at convenient times and places. For example, originally, gas stations sold only gas. Then the marketers of milk realized that it would be very convenient if milk customers could buy milk when they buy gas. The marketers of milk made arrangements with gas stations so that the gas stations could sell milk. The result was more convenience for customers and more sales of milk for the milk marketers.

The place element includes distribution. **Distribution** is the process of physically delivering goods to customers. Distribution includes shipping, storing, inventory, and stocking of goods.

Good decisions about place help a business run smoothly. When poor place decisions are made, major problems can result. Customers get upset because products are not available when they want them. Customers might express their dissatisfaction by shopping at a competitor's store. This type of loss of customers might lead to financial losses for the business. For example, suppose you went to an ice cream shop, but



1-6

Services, such as a manicure, are considered products.



1-7

The place element includes deciding where to locate your store and how to get goods to your store.

they were out of your favorite flavor. This is an example of a poor place decision because the store did not have the product on hand when you wanted to buy it. As a result, you might go to a competing ice cream shop. If your experience at the competitor's shop is satisfying, you may never return to the first shop.

Price

Price is the amount of money requested or exchanged for a product. Marketers determine the price they charge for their products. Marketers can set prices at any level. However, if marketers set prices too high, customers might not buy the product. If marketers set prices too low, they might not take in enough money to cover expenses and make a profit. Setting the best price is important for business success and customer satisfaction.



Reality Check

Have you experienced poor place decisions? Describe one example.



Reality Check

Does the price of a product affect whether you will buy it? Give an example.

Promotion

Promotion is the process of telling people about the product and the company that offers it, 1-8. It includes telling people about the price and the place where it is offered. If customers do not know that a product exists,



1-8

Promotion includes a wide variety of activities that communicate with customers and the public. Advertising, sales, customer service, and public relations are all part of promotion.

they cannot buy it. If customers do not know where to find a product, they will not be able to buy it.

Promotion is the most visible part of marketing. Promotion includes a variety of activities designed to get customers to buy products. Selling and advertising are the major parts of promotion. A salesperson delivers promotional messages when he or she helps a customer. Advertising delivers promotional messages on TV, radio, Web sites, billboards, magazines, and newspapers. Direct mail, free samples, and contests are also part of promotion. Customer service, that is, helping customers before and after the sale, is also considered part of promotion.

Another aspect of promotion focuses on the company, rather than the product. This type of communication is often designed to promote a positive image of the company. For example, an advertisement may describe a charity that the company supports. This aspect of promotion is called public relations.



Reality Check

Does advertising influence you to want certain products? Describe an ad that led you to buy the product.

Marketing Is the Marketing Mix

Marketers have hundreds of choices for each of the Four Ps. For each product that a company markets, the marketers develop a plan called the marketing mix. The **marketing mix** is a plan of action for marketing a product; it consists of the decisions made about each of the Four Ps for that product. A marketing mix can also be developed for a group of products or for an entire store.

You might compare the marketing mix to a recipe for a cake. A cake must have certain basic ingredients, such as flour, liquid, leavening agent, and flavoring. However, the exact type, amount, and number of ingredients depend on the kind of cake you want.

How do marketers make marketing mix decisions? Before developing a marketing mix, the marketer usually has a target market in mind. Once the target market is determined, the decisions about each of the Four Ps will be made with this target market in mind. The marketers will make product, place, price, and promotion decisions that meet this target market's needs and wants. The marketers will develop a product that the target market needs, set a price the target market will pay, make the product available at stores convenient to the target market, and advertise the product where the target market will see the ads. Figure 1-9 is a graphic representation of the marketing mix. The target market is in the center, to show



1-9

The marketing mix consists of the decisions made about the Four Ps: product, place, price, and promotion.

that all the marketing mix decisions are made with the target market in mind.

For example, suppose an automobile manufacturer selects young, first-car buyers as its target market. The marketers for that automobile manufacturer will then develop a marketing mix. The marketers will make product, place, price, and promotion decisions based on the needs and wants of these young first-car buyers. The product decision might be to make a sporty-looking car in bright colors. The price decision might be to make the car as affordable as possible. The place decision might be to offer the car on a Web site as well as a traditional dealership. The promotion decision might include the use of young, hip-looking people in the TV ads and include Internet promotion. Each decision is made to meet needs of the customers in the target market and influence them to buy the product.

Marketing mix decisions also affect each other. For example, the decision to make the price of the car as low as possible affects the product decision. The car will have to be made as inexpensively as possible so that the price can be as low as possible.

The same marketing mix usually does not meet the needs of all customers. The key to a successful marketing mix is choosing the right product, selling it at the right price, making it available at the right place, and promoting it in a way that will reach the target customers.



Reality Check

Think of a favorite product or store. Describe the target market for this product or store.

The Marketing Mix in Action

Imagine that you want a portable audio player. You see an ad in the local newspaper for a sale on audio players. The ad notes

that the sale price is \$75.99. You have saved \$85.00 for a player. The ad is for an electronics store in the mall near your home. You go to the store, and a salesperson helps you find the right player. You buy the audio player. Can you identify the Four Ps in this marketing mix?

Here are the marketing mix elements. The audio player is the *product*. The ad is part of the *promotion*. The salesperson is also part of the *promotion*. The *price* is \$75.99. The electronics store is the *place*. Since (in this example) you bought the player, the marketers for the audio player developed the right marketing mix for you. They provided the product you wanted, at a price you could afford, at a place convenient to you. They also let you know about the availability of the product by advertising in a newspaper that you read.

Notice that the *customer* is not part of the marketing mix. The customer is the target of the marketing mix. The marketing mix decisions are made to satisfy the customer.

Is Marketing in Your Future?

If you choose a career in marketing, you will be part of an exciting field that is growing, 1-10. You will also be in a career with great potential for advancement and high earnings. There are careers for all types of people in marketing.

Are you outgoing and friendly? Consider a career in sales or customer service. Do you love art and design? A career in advertising, visual merchandising, or Web design might be right for you. Is math your strength? A career in market research involves math as well as research skills. Are you a problem solver? You might enjoy a career in distribution.

Are you a sports fan? Do you love to travel? Do you prefer theater and the arts?



1-10

Is a marketing career in your future?

Consider a career in sports, recreation, or entertainment marketing. Are you the best shopper ever? You might enjoy a career as a buyer in a store that sells your favorite goods. Does money fascinate you? A career in financial services marketing involves working with money. Would you like to be your own boss? Consider becoming an entrepreneur by starting your own business. For almost any area of business, you can find a marketing-related career.

Suppose business careers do not interest you that much. Perhaps you are interested in a career in education, government, the military, health occupations, social services, the clergy, or charitable causes. Knowledge of marketing will also help you accomplish your goals in these fields. Today nonprofit organizations, such as hospitals and charities, have marketing plans. Even government agencies use marketing.

Marketing skills will also come into play when you start your career. How can you impress an interviewer? How will you improve your chances of getting accepted

at an institution of higher education? How will you convince a loan officer to lend you money for your new business? Your marketing skills can help you present yourself effectively in many situations.

You will always be a consumer. As long as you are alive, you will be buying goods,

services, and ideas. Nearly half of every dollar you spend goes for the marketing of the products you buy. Knowing about marketing will not only help you in your career, but it will also help you to be a wise consumer.



Suppose you decide to open your own business. You will need to know about marketing. You will be making decisions about product, place, price, and promotion.

Camilla Amber White One Dynamic Entrepreneur

Have you ever sold lemonade, babysat, or mowed lawns? If you have, you were (or are) an entrepreneur! An entrepreneur is a person who starts and runs his or her own business. Entrepreneurs of any age must decide about the Four Ps for their businesses.

Camilla Amber White has been an entrepreneur since she was two years old, when she sold lemonade in her driveway. By the time she was five years old, she was making and selling crafts. While still a teenager, Camilla owned three businesses; but one of her businesses, Jam-N-Yams, was by far her most successful.

Choosing the Right Product

Camilla has always loved to bake. One day her father forgot to bring home pie for dessert. Camilla decided to make her own pie. She soon realized she loved baking pies and began to create her own recipes. She says, "My pies tasted so good, I figured I could make a profit from selling them."

Camilla offers over 32 flavors of pies, including sweet potato, Oreo cookie crunch, white chocolate, key lime, apple, and champagne meringue. All of the pies are made from scratch using her unique recipes.

Developing the Right Promotion

Camilla started her business when she was eight years old. Once she had a product, she had to figure out a way to entice customers to buy her pies. She visited a local hair salon and offered samples. She left that salon with her first three orders for pies and a surefire way to create demand for her pies. Word began to spread quickly about the quality of her pies. Soon, she was providing samples and taking orders at a local video



Courtesy of Camilla A. White

store, candy store, and management company. Camilla found that once people tasted her pies, they were sure to buy. With help from her father, a successful hotel owner, Camilla started providing pies to a restaurant in one of his hotels. She now provides over 50 pies a week to a variety of local restaurants.

Charging the Right Price

When Camilla first started selling pies, she charged \$4, regardless of the cost to make the pie. Camilla then realized that while she was providing a good deal for her customers, she was not earning enough to make the profit she wanted. She soon began pricing her products based on cost and her time. In 2002 she earned over \$9,000 in profits from her company.

Making the Place Decision

Camilla delivers her pies to her customers. Her mother drives her to each client and waits while Camilla delivers the pies.

Camilla has been recognized throughout the country for her success as an entrepreneur. When she was 15, she earned the *Black Enterprise* Kidpreneurs Award for 2002. She has also been listed in *Cosmo Girl* as one of the richest self-made girls on the continent. Camilla says, "You're never too young or too old to start a business."

CHAPTER 1 REVIEW

Remember This

- Marketing consists of dynamic activities that focus on the customer to generate a profitable exchange.
- The main goal of marketing is to meet customer needs and wants with products that customers can and will buy.
- The Four Ps are product, place, price, and promotion.
- A product is a good, service, or idea that can be marketed.
- The marketing mix is a plan of action for marketing a product; it consists of the decisions made about each of the Four Ps for that product.
- Decisions about the marketing mix are made with the target market in mind.

Review Concepts

1. Define *marketing*.
2. Why is marketing dynamic?
3. Why should marketing focus on the customer?
4. In what ways is marketing international?
5. Describe each of the Four Ps.
6. Describe the difference among goods, services, and ideas.
7. Give an example of each of the three different kinds of products.
8. How do marketers make marketing mix decisions?

9. Draw a diagram that shows the relationship between the marketing mix and the target market.
10. How can knowing about marketing help you, even if you do not go into a career in marketing?

Think Critically

1. List five goods and five services that you or members of your family often buy.
2. Dental care is considered a product. Explain why. What type of product is it?
3. A charitable organization, such as the Red Cross, sells a product. What type of product does it sell?
4. Can one store or business sell all three types of products? Name a store or business and give an example of each type of product that it sells.
5. Look at Figure 1-9. Why is the target market at the center of the diagram?
6. Name a product that you own or would like to own. What product, place, price, and promotion decisions did the marketer make for that product? In other words, what is the marketing mix for that product?
7. Organizations such as student council, student career organizations, and sports teams use marketing. Choose an organization with which you are familiar. Give an example of the Four Ps for that organization.

CHAPTER 1 REVIEW

8. How does marketing affect your family? Give an example.
9. Think about your life after high school. How might marketing affect your future? Give three examples.

Connect to Business

1. Talk with the manager of your workplace, your school store, or a store in your neighborhood. Ask, "How does marketing help your business achieve its goals?" Record the answer.
2. Collect two or more advertisements for a specific product. Make a poster that illustrates the marketing mix. Label each of the Four Ps.

Explore Careers

1. Look in the "Help Wanted" section of your local newspaper. Find a marketing job that appeals to you. Explain why you are interested in the job. Attach the ad to your paper.
2. Collect at least 10 ads for different marketing jobs. Organize the jobs based on the Four Ps and mount on paper.
3. Visit the Web site of your favorite store, business, or brand, for example, The Gap (www.gap.com). Click on the link "Careers" or "Jobs." If you do not see

such a link, click on the "Company Info" or "About Us" link. Then look for and click on the "Careers" or "Jobs" link. Find a job that appeals to you. Print out the information about the job. Write down the job title and describe your duties if you had the job. What qualifications would you need? What would you have to do to get those qualifications? Why does the job appeal to you?

Connect to the Internet

1. Name a product that you would like to buy. Find a Web site where that product is sold. Describe the marketing mix for that product, based on the information on the Web site. Does this marketing mix meet your needs?
2. Find another Web site that sells the product you named in item #1. Compare the two marketing mixes. From which Web site would you purchase the product? Why?
3. Find the Web site for the American Marketing Association (www.marketingpower.com). Find out what the organization does. What kind of information can you get from this Web site? How might this Web site help you to be a better marketer?

Marketing Terms

need

want

economic needs and wants

economic goods and services

exchange

money

value

business

profit

sole proprietorship

partnership

corporation

nonprofit corporation

production

finance

management

After studying this chapter, you will be able to

- identify economic needs and wants.
- describe the three uses of money.
- explain how business satisfies economic needs.
- describe the three forms of business ownership.
- describe the difference between a for-profit corporation and a nonprofit corporation.
- list the four functions of business and give an example of each.
- explain the role of marketing in business.

In order to have a good understanding of marketing, you need to understand some basic concepts about business, 2-1. This chapter will look at business in the broad sense to see how marketing fits into the total picture. This discussion will be like a photograph taken from an airplane, which shows how all the buildings, roads, rivers, and fields connect. The following chapters will then focus specifically on the topic of marketing. This chapter presents concepts such as economic needs and wants, the exchange, money, types of business ownership, and the four basic functions of business.



2-1

In order to understand marketing, you need to understand business.

Economic Needs and Wants

What do you need to be able to live? Could you physically survive without a new leather jacket? Could you survive without food to eat? A **need** is something that is necessary for survival. On a desert island, you need air, water, food, clothing, and shelter. In our current society, needs include things you need to function in society. For example, you need schoolbooks, school clothes, and transportation to and from school.

If a genie granted you a wish, what would you want? You might want a new car, a new outfit, or a trip to your favorite vacation spot. A **want** is something you desire but could function without, 2-2.



2-2

What do you really need? What do you just want?

Everyone has needs and wants. Some needs and wants cannot be satisfied by buying something. For example, you cannot buy friendship. Needs and wants that you can satisfy by buying something are called **economic needs and wants**. Often, the term is shortened to economic needs, and you assume that the term includes economic wants. The products that you buy to satisfy economic needs are called **economic goods and services**.

Businesses have economic needs as well, 2-3. A business may need a new computer, an accountant to handle the finances, or a new building.



value) for a soft drink (a good) and a concert ticket (entertainment, which is a service). You also gave money to support the animal shelter (an idea or cause). Exchange is the basis of all business. Without exchanges, business and marketing would not exist, 2-4.



Reality Check

Describe your most recent exchange. Include the product you acquired and what you exchanged for it.

2-3

Businesses also have economic wants and needs. They might need more workers, more equipment, or more office space.



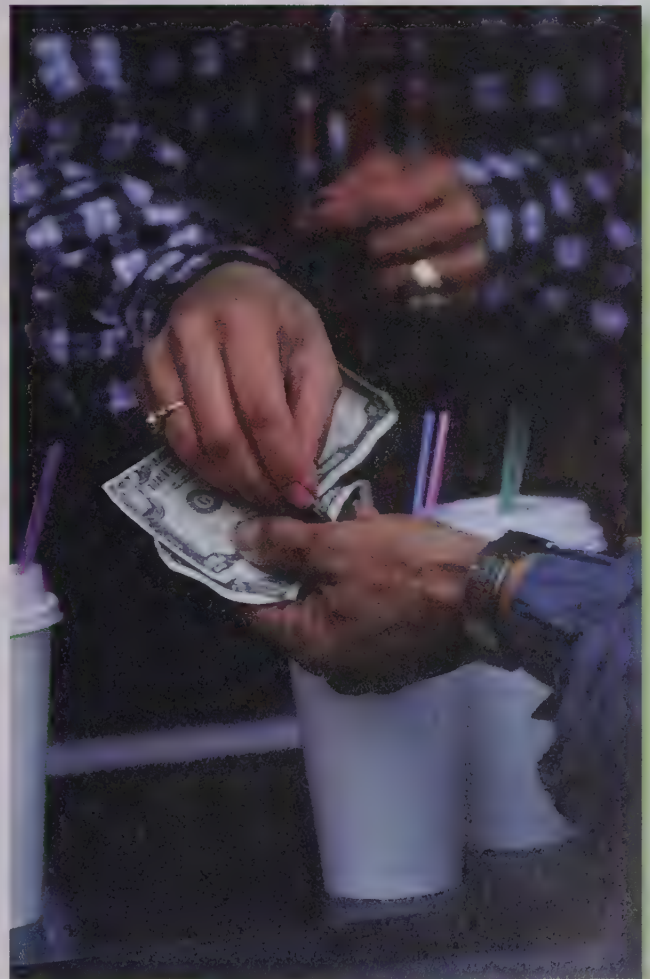
Reality Check

Make a list of your needs. Circle the economic needs. Then make a list of your wants. Circle the economic wants.

The Exchange

Suppose you decide to go to a concert. On your way to buy tickets, you are thirsty, so you buy a soft drink. You put two dollars into a vending machine, and get a drink and some change. As you walk through the mall, you meet a friend who is collecting money for an animal shelter. You give her the change. When you get to the ticket booth, you give the cashier \$35 for the concert ticket.

You did what all of us do: trade money for things you need and want. You gave cash to someone, and in exchange, received something you wanted. To **exchange** is to trade something of value for something you want. You exchanged money (something of



2-4

Exchange means to trade something of value for something you want. Exchange is the basis of all business.

Money

In ancient times, people would exchange goods for other goods. They would also work in exchange for food and other goods. This type of exchange is called *barter*. Barter can be very difficult, time-consuming, and unsuccessful. To solve the difficulties with barter, people developed a solution: money. **Money** is a consistent item that people accept in exchange for goods or work. Early forms of money included beads, salt, tobacco, and gold. Today people use paper money, coins, checks, and debit cards.

Money makes it easier to exchange goods and services. Without money, modern business would not be possible. Money is used in three ways: (1) medium of exchange, (2) unit of value, and (3) store of wealth.

Medium of Exchange

Imagine if there were no money, and you were an apple picker. You get paid in apples. Whenever you want to buy something, you have to carry around a huge sack of apples. Suppose you try to barter your apples for a shirt, but the shirt-seller does not want apples. He wants coffee. You have to run around (with your big sack of apples) looking for someone who will take your apples in exchange for coffee. Now imagine the situation with money. You get paid in dollars. The dollars are small and light and fit in your back pocket. The shirt seller can charge you \$9. You can pay him with the dollars. Money is a convenient medium of exchange.

Unit of Value

Money also makes it easier to express the value of goods and services. **Value** is how much something is worth. In the barter situation, people have to determine the value of an item each time they exchange it for a new item. For example, how many apples is

a shirt worth? How many shirts is a pound of coffee worth? What if a pound of coffee is worth a shirt and a half? What good is half a shirt? Money enables you to express the value of products in a precise, mathematical form, 2-5.

The dollar is the unit of value in the United States. The dollar is used to express the value of goods, services, and ideas in the same way miles are used to express distance. How far away is that town? 50 miles. How much does that leather jacket cost? 300 dollars. The value of a product expressed in dollars is known as the *price*.

The word *value* also has another meaning. Value can refer to the worth of an item to an individual. Individuals do not



2-5

In the time of barter, people exchanged items such as salt, animals, or produce. Money is a more convenient medium of exchange.

value all items the same way. For example, an individual may think that a leather jacket is not worth \$300. Another individual might think the jacket is worth \$300. The marketer of the jacket thinks it is worth \$300 and that many customers will pay that price. Price is the way marketers establish the value of the their products.

Store of Wealth

Imagine a storeowner in the time of barter. She receives payment for goods in the form of apples, shirts, salt, and cows. How will she store all these big, bulky, and (in the case of the cows) living items? What if she needs to pay for something and it costs half a cow? What if the apples rot or the cows die before she can exchange them for something she needs? Money enables you to keep and store wealth in a compact, easy, and long-lasting form. Money is considered a store of wealth because it enables you to store (in other words save) money until you need it.

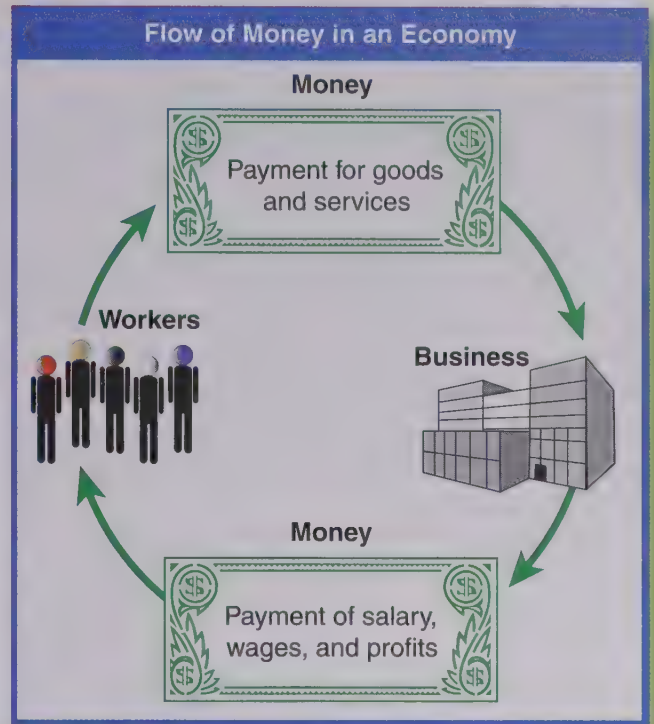


Reality Check

Describe how you use money as a store of wealth.

What Is Business?

Business is the general term for all the activities involved in the development and exchange of products. The general term *business* includes industry, construction, mining, and farming. Business provides most of the goods and services that you use every day. Business also supplies most of the wages (money) that people use to buy those goods and services. Business is the engine that powers economies around the world. Figure 2-6 shows how money flows through an economy.



2-6

Business powers the economy. Money flows from businesses to workers, then from the workers back to the businesses.

The term *business* is also used to refer to a specific person or group of people who are involved in the development and exchange of products. A business can be large or small. A lemonade stand run by children is a business. General Motors, with thousands of employees and hundreds of buildings, is also a business. Several other terms are used to refer to a business: *firm*, *company*, *organization*, *corporation*, and *enterprise*.



Reality Check

Make a list of all the businesses that touch your life in just one day. Keep in mind that if you use a product in an activity, such as a toothbrush for brushing your teeth, then both the toothbrush manufacturer and the store where you bought the toothbrush touch that activity.

Goal of Business

The main goal of most businesses is to make a profit. **Profit** is the money that a business has left after all the expenses and costs of running the business are paid.

How does a business make a profit? A business makes a profit by marketing products that customers want and are able and willing to buy. Customers want and are willing to buy products that meet their needs and wants. Therefore, most businesses make a profit by satisfying the needs and wants of their customers.

Businesses find out what customers need, want, and will pay for. Businesses then develop, produce, distribute, advertise, and sell their products. For example, Nike knows that its customers want quality athletic shoes and the image of athletic ability. Based on this knowledge, Nike develops, produces, distributes, advertises, and sells athletic shoes.



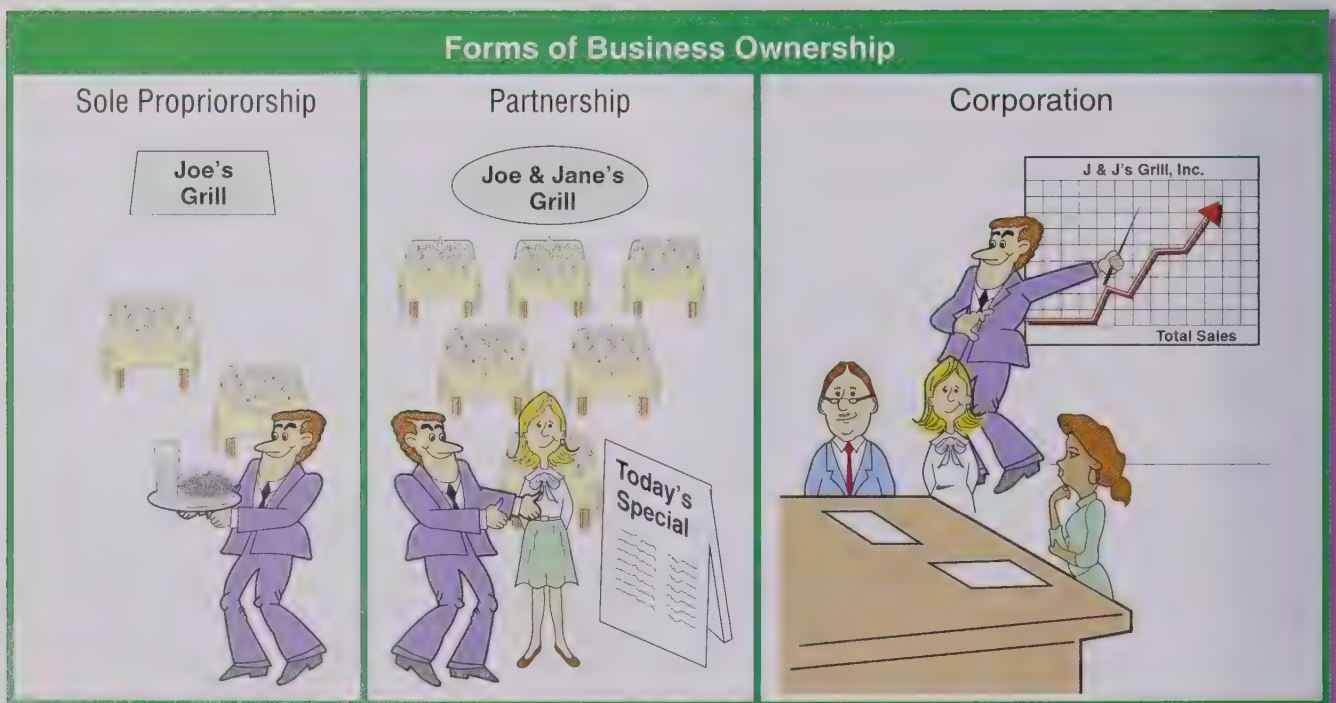
Reality Check

Think of an economic need or want that you have. Name at least one business that has a product to satisfy that need.

Forms of Business Ownership

There are millions of businesses in the United States. However, there are only three forms of business ownership: sole proprietorship, partnership, and corporation. A brief overview of the three types follows, 2-7. You will learn more about them in Chapter 52.

A **sole proprietorship** is a business owned by one person. That person has all the responsibility and gets all the profits from the business. Many small businesses are



There are only three forms of business ownership: sole proprietorship, partnership, and corporation.

sole proprietorships. Examples include car washes, restaurants, and beauty salons.

A **partnership** is a business owned by a small number of people, usually two or three. Partners share the responsibility and the profits of the business. Law firms are often partnerships.



Reality Check

Are any of the businesses in your neighborhood sole proprietorships or partnerships? List at least two of each type.

What Is a Corporation?

In the eyes of the law, the people who own a sole proprietorship or a partnership are the business. However, in the eyes of the law, a corporation is an artificial person that exists separately from the people who own it. The legal term for artificial person is *legal entity*. A **corporation** is a legal entity established for the purpose of doing business. As a legal entity, a corporation can buy property, run a business, manufacture products, earn money, lose money, sue, and be sued. As a legal entity, the corporation is separate from the people who own it. The owners are not responsible for the actions of the corporation. The corporation is responsible for its actions.

Who owns the corporation? People called *shareholders* or *stockholders* own the corporation. *Stock* is the right of partial ownership in the corporation. The corporation sells stock. The people who buy the stock become the stockholders and owners of the corporation. Many large businesses are corporations. Examples include Ford, Microsoft, and Verizon.



Reality Check

Name a corporation in which you own stock or would like to own stock.

What Is a Nonprofit Corporation?

There are two categories of corporation: for-profit and nonprofit. The goal of a for-profit corporation is to make a profit for the owners. When the term *corporation* is used on its own, it refers to a for-profit corporation.

A **nonprofit corporation** is a legal entity, like a for-profit corporation. However, instead of profit, its main goal is to achieve something to benefit society. Here are some nonprofit goals: to raise money for medical research, to protect the environment, and to provide outdoor camping experiences for children. Nonprofit corporations are also called *nonprofits* or *not-for-profit organizations*.

The goals of a nonprofit corporation usually fall into one of five categories: charity, education, public benefit, mutual benefit, and religion. For example, the Red Cross is a nonprofit corporation. The goal of the Red Cross is to help people keep safe every day and to provide help during emergencies.

A nonprofit corporation can make a profit. However, any profit it makes goes back to support the nonprofit goal. There are special laws for nonprofit corporations. For example, nonprofit corporations are excused from paying many kinds of taxes.



Reality Check

Name one nonprofit corporation that you belong to or that you know about. What is the goal of that organization?

The Functions of Business

Function is a general word for a category of activities. Businesses carry out numerous activities. These activities are often grouped into four functions: (1) production, (2) finance, (3) marketing, and (4) management, 2-8.

Production

Have you ever seen production at a large manufacturing plant? When you think of production, you often think of huge factories

and assembly lines of people putting together cars, washing machines, and TVs. **Production** is any activity related to making a product (good, service, or idea). Production includes farming, mining, construction, and manufacturing. Production also includes the work done at a TV station in preparing a program for broadcast. For services, production is often the service itself, for example, cutting and styling hair.

Finance

Businesses handle a large amount of money. Businesses handle the money that customers pay them. Businesses pay for raw

Four Functions of Business

Production

Making goods, services, ideas



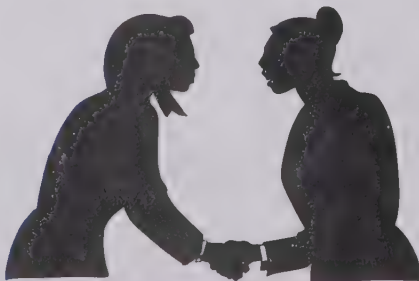
Finance

Activities related to money



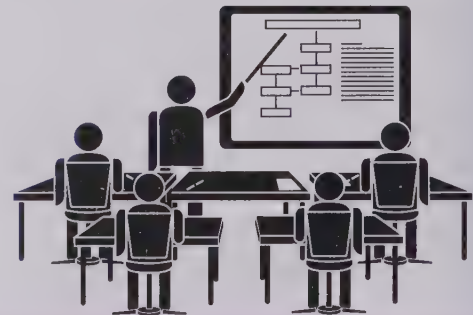
Marketing

Activities focusing on the customer



Management

Planning, coordinating, and monitoring



materials and business services. Businesses pay their employees and taxes. Sometimes businesses borrow money from a bank. The **finance** function of business includes all activities involving money.

An important task of the finance function is planning. The people who work in finance are often responsible for developing budgets. A *budget* is a spending plan. A budget helps the business make sure it has enough money to cover expenses. It also helps make sure that the business is handling its money wisely and making a profit. If a business decides to take a loan, the financing function will plan for the repayment of the loan.

Accounting is one part of finance. *Accounting* handles paying bills, receiving payments, and keeping track of all money that enters or leaves the business.

Marketing

Marketing is the part of the business that focuses on the customer. Marketers are responsible for helping the entire business focus on the needs and wants of customers. The marketing function helps a business follow the marketing concept. You will learn about the marketing concept in Chapter 3.

Marketing includes many functions. Some of them are selling, promotion, and

pricing. The marketing function includes learning about customers so that the business can develop products that customers want and are able and willing to buy. Marketing then promotes and sells the products to customers. Marketing also follows up to find out how satisfied customers are with their products. You will learn more about the functions of marketing in Chapter 3.

Management

Management includes all the activities required to plan, coordinate, and monitor a business. Imagine the school band without a bandleader. What happens to the music? It sounds terrible. Why? Even though each of the musicians is talented, none of them can hear the sound of the whole band. The role of the bandleader is to constantly assess the sound of the whole band. The bandleader then instructs each member how to change to make the sound better. Management in a company plays a similar role. The managers look at the big picture and lead workers to make changes to make the business better. Managers plan, implement plans, and control. (In business, control means to monitor and evaluate results.) Managers also hire, train, and supervise employees.

CHAPTER 2 REVIEW

Remember This

- Exchange is the basis of all business and marketing.
- Money is used as (1) a medium of exchange, (2) a unit of value, and (3) a store of wealth.
- Business satisfies your economic needs by producing and marketing products that meet your needs.
- The three forms of business ownership are sole proprietorship, partnership, and corporation.
- The goal of a nonprofit corporation is to benefit society.
- The four functions of business are (1) production, (2) finance, (3) marketing, and (4) management.
- The role of marketing is to help the business focus on the customer.

Review Concepts

1. What makes a need an economic need?
2. Give an example of an exchange.
3. Why is money easier to use than barter?
4. Give an example of each of the three uses of money.
5. Give two meanings for the term *business*.
6. What is the main goal of most businesses?
7. Explain the differences among a sole proprietorship, a partnership, and a corporation.
8. True or False: A nonprofit cannot make a profit. Explain your answer.

9. Describe each of the four functions of business.
10. Which business function includes accounting?

Think Critically

1. Write down one economic need and one economic want that you have. Explain why one is a need and the other is a want.
2. Describe a situation in which barter would be useful.
3. Name an item that you own that you would consider selling. How would you value this item? Describe its value if you were bartering for it. Then describe its value in terms of money.
4. Give examples of how *you* use money as a medium of exchange, a unit of value, and a store of wealth.
5. Name three businesses that meet your economic needs or wants. For each business, name the need or want that it satisfies. Then describe how the business satisfies that need or want.
6. Name a nonprofit corporation. What is its goal?
7. Describe a business you would like to own. Which type of ownership would you choose? Why? How would you carry out the four functions of business?
8. There are three types of products: goods, services, and ideas. Give an example of a production activity for each.
9. A business needs a loan to buy some equipment. Which business function would handle this activity?

10. A business wants to know if its customers are happy with its products. Which business function would gather this information?

Connect to Business

1. Contact a manager at your workstation or a local business. Find out how the four business functions are handled. Is there a separate department for each function? Get permission to interview one person in each area. Find out the person's job title and what he or she does during a typical day. Assemble the information into a report, presentation, or poster on the four business functions.
2. Make a chart showing the three types of business ownership. Under each type, list at least three businesses in your community.

Explore Careers

1. Look in the "Help Wanted" section of your local newspaper. Find at least two ads for each of the four business functions. Based on these ads, describe the qualifications needed for workers in each of the four functions.
2. Look in the "Businesses for Sale" or "Business Opportunities" section of your local newspaper. Choose a business that appeals to you. Describe the business and why it appeals to you. What type of business ownership would it have?

Connect to the Internet

1. Find a Web site that helps people barter. Describe the Web site and how it works. Would you use that Web site to buy something? Explain why or why not.
2. Choose a foreign country. Use a search engine to learn about the money (currency) used in that country. Describe that country's currency and how it compares with U.S. currency.

3

The Marketing Concept

Marketing Terms

utility
form utility
place utility
time utility
information utility
possession utility
adding value
marketing concept
customer satisfaction

After studying this chapter,
you will be able to

- give examples of the five types of utility.
- explain the three elements of the marketing concept.
- describe the benefits of the marketing concept to business and customers.
- list the seven functions of marketing.
- give an example of each marketing function and describe how it supports the marketing concept.

Suppose you want cornflakes for breakfast. Which of the following two situations is easier and more convenient?

- Get up. Find a cornfield. Pick corn. Bring it home. Remove kernels. Grind up kernels. Mix with other ingredients. Bake mixture, then flake. Eat.
- Get up. Run to store. Buy box of cornflakes. Bring it home. Eat.

Most people would say the second situation is easier and more convenient. The businesses involved in manufacturing and selling cornflakes add utility to the corn, 3-1.

Utility

One of the major tasks of business is to provide utility. *Utility* means usefulness. In a business context, **utility** means the ability of a product to satisfy human wants and needs.



Right: Photo courtesy of IGA, Inc.

3-1

Business adds utility to corn by converting it to cornflakes, boxing it, and delivering it to a store near you.

A farm business plants and produces corn. A cereal factory adds utility to the corn by turning it into cornflakes. A grocery store adds utility by stocking the cornflakes in a location near where you live. The grocery store might add more utility by keeping the store open 24 hours a day. There are five types of utility:

- **Form utility** is added when a business changes the form of something to make it more useful. The main job of the production function of business is to add form utility. For example, an auto manufacturer takes steel, plastic, fabric, and glass and turns them into an automobile. In a service business, the production of the service itself provides the utility. For example, when you take your clothes to the dry cleaner, the service of cleaning provides the utility.
- **Place utility** is added when a business makes products available at convenient places. For example, relatively few people live near an automobile manufacturing plant. A car dealer adds place utility by building the showroom near where you live. In banking, people

often need to get cash when they are not near the bank. Automated teller machines (ATMs) provide place utility by making cash available at convenient places, such as a supermarket or airport, 3-2.

- **Time utility** is added when a business makes products available at the times that customers want them. For example, banks used to close at 3 in the afternoon.



3-2

ATMs provide place utility by providing access to cash when people cannot get to the bank.

Many people who use banks are at work at that time. To provide time utility, some banks stay open until 8 p.m. one or more nights a week.

- **Information utility** is added when a business provides information about a product to a customer. A major part of information utility is telling the customer about products and where to buy them. Advertising provides information utility by describing products and telling customers where to buy them. Information about products includes telling customers how to use them. For example, the marketer for a new kitchen appliance might arrange for demonstrations on how to use it. The marketer for a bank might develop a video that explains the services that the bank offers.

- **Possession utility** is added when a business makes it easier for a customer to acquire a product. Possession utility includes offering various kinds of credit. For example, you need a car to get to work, but you do not have enough money to pay for it. The auto dealer provides possession utility by helping you arrange for a loan. The loan enables you to take possession and use the car while you are still paying for it, 3-3.

Form utility is provided mainly by the production function of business. Place, time, information, and possession utility are usually provided by the marketing function of business.

Marketers often refer to the process of adding utility as adding value. **Adding value** means adding a feature or service that makes a product meet more customer wants and needs. For example, a furniture store could add value by offering to deliver purchases. Delivery provides place utility. Delivery is a value-added feature.



3-3

Loans enable you to take possession of an expensive purchase, such as a car, and pay for it over time.



Reality Check

Choose a product that you use or want. Describe how business has added one or more utilities to that product.

The Marketing Concept

There are millions of businesses. Many of them offer similar products. These businesses compete with each other for customers. The businesses that get the most customers are usually the most successful. What helps a business get more customers? Businesses usually get more customers when they learn about their customers and add utilities to their products that the customers want.

When a business focuses on the customer, the business is said to be following the marketing concept. The **marketing concept** is an approach to business that says that the way to make a profit is to focus on customer satisfaction. There are three elements to the marketing concept:

- **Customer Satisfaction.** For businesses that follow the marketing concept, satisfying customers is a major goal. **Customer satisfaction** is the positive feeling a customer gets when the product purchased meets or exceeds the customer's expectations. How does a business satisfy customers? One way is to add more utility to products. Another way is to provide exceptional customer service, 3-4.
- **Total Company Approach.** As you learned in Chapter 2, marketing is the function of business that focuses on the customer. The marketing concept is a natural part of the marketing function. However, the marketing concept is not just for the marketing function of business. The marketing concept says that all four functions of business must

work together to satisfy customer needs and wants. Employees in production, finance, management, and marketing must work together as a team. Together they focus on earning profit by satisfying customer needs and wants.

Companies that follow the marketing concept realize that every employee can have an effect on the customer, 3-5. Every person who interacts with a customer influences the customer's opinion of the company and its products. These companies make sure that each employee gets training in dealing with customers.

- **Profit.** The marketing concept says that the best way to make a profit is by satisfying customers. However, if a business were to do everything that customers want, the costs might be very high. A business might lose money trying to meet every customer want. The



3-4

Customer satisfaction is a major focus of the marketing concept.



3-5

Employees who are not in sales or marketing can have an impact on the customer.

marketing concept says that profit is also important. Often a business cannot afford to do everything to meet customer needs. The marketing concept says that a business should balance satisfying customers with making a profit.

The marketing concept benefits customers by focusing the business on meeting their needs. The marketing concept benefits the business by building a strong base of satisfied customers who buy again and again, which results in increased profits.



Reality Check

Have you ever been a satisfied customer? Describe what the business did to make you a satisfied customer.

The Functions of Marketing

The role of marketing is to help the whole company focus on customers. The marketing function specializes in learning about customer needs and wants. By sharing information about customers with production, finance, and management, the marketing function helps the business focus on customer satisfaction.

Marketing itself consists of hundreds of activities. Marketing activities can be organized in many different ways. This textbook organizes marketing activities around the customer (market) and the Four Ps: product, price, place, and promotion.

Another way to organize the activities of marketing is into seven functions. In this scheme, there are seven functions of marketing. In a small company, all these functions might be performed by one or two people. In a large corporation, each

function might have its own department. The marketing functions are the activities that marketers perform to carry out marketing mix decisions and add utility to products. The seven functions are as follows:

- **Financing.** The financing function of marketing is very similar to the finance function of business. Financing as a marketing function involves managing the money for marketing activities. In marketing, the financing function might gather information on costs of marketing activities and prepare budgets, 3-6. You will learn more about financing in Chapter 30. Another financing function of marketing is helping customers with possession utility. The finance department helps customers by providing customer credit and other financing arrangements. Credit and loans help customers take possession of products and use them while they are paying for them. You will learn more about this aspect of financing in Chapter 45.



3-6

The marketing financing function includes budgeting for marketing activities and helping customers with credit.

- **Information Management.** Marketing information management (MIM) is also called marketing research. MIM gathers, analyzes, and distributes information about markets, competition, and customers. MIM is one of the main ways that a business learns what customers want. MIM activities might include developing surveys, analyzing the results of surveys, and meeting with customers. You will learn more about marketing research in Chapter 20.
- **Distribution.** The distribution function handles activities involved in getting products from producers to customers. Activities include transporting goods, storing goods, finding sources for products, making sure products get where they are needed on time, and transferring ownership of products. You will learn more about distribution in Part 5.
- **Product/Service Management.** The product/service management function specializes in developing products. Examples include developing a new product and improving an old product, 3-7. In retail, product management includes deciding which products to carry in a store. You will learn more about product/service management in Part 4.
- **Pricing.** The pricing function handles all activities involved in setting prices for products. Activities include using financial information to determine price, setting prices to cover costs and include reasonable profit, and adjusting prices when conditions change. Pricing also researches and analyzes the prices that competitors are charging. You will learn more about pricing in Part 6.
- **Promotion.** In this scheme, promotion refers to the nonpersonal communication with customers. This is the type of communication in which the same



3-7

The product management function includes developing new products and improving old products.

message is conveyed to all customers. Types of nonpersonal promotion include advertising, public relations, sales promotion, and visual merchandising. You will learn more about promotion in Part 7.

- **Selling.** The selling function consists of personal communications with customers. Activities include helping customers in a store, making sales presentations, answering questions on the phone, and demonstrating how a complex product works. A sales associate questions customers to learn what they want. The associate then matches customers wants to the appropriate product. You will learn more about selling in Part 8.



Reality Check

Think about the place where you work, your school store, or another business. Who performs each of the seven marketing functions?

The Functions and the Marketing Concept

All the functions of marketing can support the marketing concept. Each function of marketing helps a business focus on satisfying customers' needs and wants while making a profit. The financing function of marketing works with the finance function for the entire business to make sure that products are made in the most cost-effective way possible. The customer financing aspect supports the marketing concept by helping customers be able to pay for products.

The marketing information management function is one of the main ways that a business learns what customers want, so that the business can follow the marketing concept, 3-8. Those who work in marketing information management often share



3-8

The marketing information management function supports the marketing concept by providing information about what customers want.

the information they learn with other departments so that the whole company can gain a better understanding of their customers.

Distribution can contribute to the marketing concept by developing distribution plans that make products available at convenient locations. Distribution often works with the marketing information management, product/service management, promotion, and financing functions of marketing. Distribution also has to work closely with the production function of business.

In a sense, the whole purpose of the product/service management function is to satisfy customers. This function contributes to the marketing concept by developing products that meet their needs and wants.

Pricing supports the marketing concept by considering what customers are able and willing to pay. The pricing function often works with the information management, product/service management, promotion, and financing functions of marketing.

The promotion and selling functions contribute to the marketing concept by developing presentations and advertising that focus on satisfying customer needs and wants. For example, products can be presented as solutions to customer problems. The selling function is often the group of employees who have the most contact with customers. As a result, these employees often know best what customers want. Therefore, strong communication between the selling function and the product/service function, as well as the promotion function, is critical to satisfying customers.

CHAPTER 3 REVIEW

Remember This

- The five utilities are (1) form, (2) place, (3) time, (4) information, and (5) possession.
- The marketing concept is an approach to business that says that the way to make a profit is to focus on customer satisfaction.
- The marketing concept benefits customers by focusing the business on satisfying their needs and wants.
- The marketing concept benefits the business by building a strong base of satisfied customers who buy again and again, which results in increased profits.
- The role of marketing is to help the whole company focus on customers.
- The marketing functions are the activities that marketers perform to carry out the marketing mix decisions and add utility to products.
- The seven functions of marketing are (1) financing, (2) information management, (3) distribution, (4) product management, (5) pricing, (6) promotion, and (7) selling.

Review Concepts

1. Give an example of each of the five types of utility.
2. Which utility is usually *not* added during the marketing process?
3. List the three elements of the marketing concept.
4. How does the marketing concept help customers?

5. How does the marketing concept help business?
6. What are the Four Ps of marketing?
7. Give a brief description of the seven functions of marketing.
8. Describe how the functions of marketing support the marketing concept.

Think Critically

1. Choose a good that you buy, for example, jeans, hamburgers, or books. Describe how businesses added each of the five utilities to the product, starting with the raw materials.
2. Choose a good that you would like to sell. For each of the five utilities, describe how you would add each utility to your product. How will adding each utility help you sell the product?
3. Suppose that you decide to open a convenience store in your neighborhood. Where would you locate the store? Why? How would that location provide place utility?
4. Why does the marketing concept include profit as one of the three elements?
5. Suppose you were in charge of the school store. Describe how each of the seven functions of marketing would be performed.
6. Choose a product that you like, for example, a snack food. Describe what might happen to that product if there were no one to perform the seven functions of marketing.

CHAPTER 3 REVIEW

7. Make up a short story or song using the Four Ps, the five utilities, and the seven marketing functions. Be creative.

Connect to Business

1. Choose a business, such as your place of employment or a local business. Find out the job titles that handle each of the seven marketing functions. Make an organizational chart and identify the functions.
2. Name a business in your community with which you are familiar. Give examples of how that business tries to satisfy its customers.
3. Visit your favorite retail store. Observe how the sales associates try to satisfy customers. Describe the techniques the sales associates use. You may want to compare two or more sales associates at the same store or the sales associates at two different stores. Describe the differences among the sales associates in terms of how they try to satisfy customers.

Explore Careers

1. Look in the "Help Wanted" section of a newspaper. Find at least one job for each of the seven functions of marketing. Use the ads to make a poster about the seven functions of marketing. Which marketing function seems to have the most job opportunities?

2. Visit a job search Web site such as www.monster.com or www.ajb.dni.us (America's Job Bank). Choose one of the functions of marketing. Find a job in that function. Print out the job description. Write a report that describes the job and lists the qualifications. Would you like that job? Explain why or why not.

Connect to the Internet

1. Visit the Web site of a business, such as Gallup, Inc. (www.gallup.com). Click on the "Careers" link and the "About" link to learn about the business. Do you think this business follows the marketing concept? Why or why not? Give concrete examples from the Web site to support your opinion.
2. Explore the Web sites of two companies. They can sell different types of products or the same types of products, such as www.Toyota.com and www.Ford.com. Identify how each business performs the seven functions of marketing. Compare and contrast how each business performs each of the seven functions. Which Web site is easier to use? Why? Which Web site is more inviting? Why?

Marketing Terms

market

consumer market

business market

B2C

consumer

B2B

producer

reseller

institution

government

mass market

market segment

marketing strategy

After studying this chapter,
you will be able to

- list the four characteristics of a market.
- explain the difference between the consumer market and the business market.
- list the four categories of customers in the business market.
- distinguish between a consumer and a customer.
- describe the difference between a mass market and a market segment.
- explain why marketers segment a mass market.

How many different ways can you use the word *market*? Here are some examples:

1. I'm going to the market for some milk.
2. The market is up today.
3. The market for large, gas-guzzling cars is down.
4. I'm not in the market for a new computer.
5. We are thinking of expanding our market overseas.
6. How big is the ice cream market?

As with many words in the English language, the word *market* has many meanings. It comes from a Latin word meaning *trade*. In ancient times, a market was the place where people met to trade goods

and services. The word *market* still keeps some of that original meaning.

In sentence 1, market means a store, in this case, a grocery store. In sentence 2, market refers to the stock market, a special kind of market where stocks are traded. In sentence 3, market means demand. In sentence 4, market means a group of people interested in buying, 4-1. In sentence 5, market means a geographic area where a product is sold. In sentence 6, market means how many dollars customers spend each year on a product, ice cream.

Throughout this book, the word *market* will be used, and it will have different meanings in different contexts. You will have to pay attention to the context of the word, to make sure you understand which meaning of *market* is being used.

A Group of Buyers

When you buy a soft drink, you become one of the millions of people in the soft drink market. Do you know someone who hates soft drinks and never buys or drinks them? That person is not part of the soft drink market. In the simplest terms, a **market** is a group of people who want a product and are able to buy it. (Remember that *product* includes goods, services, and ideas.)

Is everyone who wants a product part of the market for that product? Think of a Ferrari, a trip around the world, a luxury home in Key West, or some other tremendously expensive product or service that you want. You may want the product. You may even be willing to buy it. However, you probably cannot afford to buy it. In



addition, because of your age, you might not have the authority or be legally allowed to buy the product. Marketers want to sell their products to a market that consists of people with the following four characteristics:

- need or want the product
- able to buy the product
- willing to buy the product
- have the authority to buy the product

As you learned in Chapter 1, people who buy products are called *customers*. People who are in the market and might buy a product are often called *potential customers*.



Reality Check

Name a product that you want. Based on the four characteristics of a market, are you part of the market for that product?

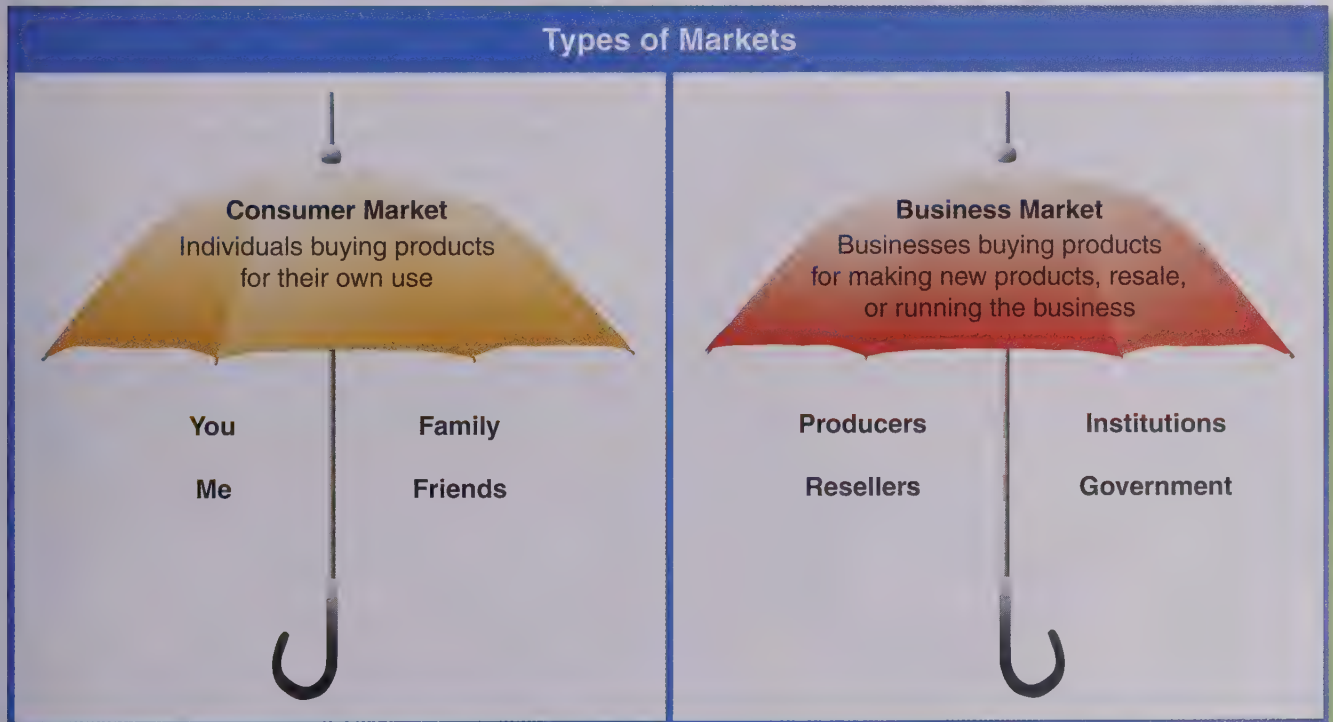
Consumer Market vs. Business Market

There are two types of markets: the consumer market and the business market. The **consumer market** consists of customers who buy products for their own use. The **business market** consists of customers who buy products for use in a business, 4-2.

The Consumer Market

The consumer market is the one with which you are most familiar. Customers in the consumer market are people like you, your family, and your friends. Customers in the consumer market buy groceries, clothes, things for the home, cars, gifts, and so on. Most of the commercials you see on TV are aimed at customers in the consumer market. The consumer market is sometimes referred

Types of Markets



One of the main ways to look at markets is to divide them into the consumer market and the business market.

to as **B2C**, which stands for business selling to consumers.

Customers in the consumer market use the products they buy for themselves, 4-3. They do not use purchases to sell to someone else or to make something to sell. In other words, people in the *consumer* market *consume* (use up) the products they buy. People in the consumer market do not use their purchases for a business. A consumer is a member of the consumer market. A **consumer** buys products for his or her own use.

When you buy a gift or things for your family to use at home, you are still part of the consumer market. However, as soon as you buy something to sell to someone else, that purchase is part of the business market. For example, if you buy beads to make jewelry to sell to your friends, that bead purchase is part of the business market. Suppose you mow lawns as a part-time job. If you buy a lawnmower to use, that lawnmower purchase is part of the business market, 4-4.



4-4

If you buy a lawnmower for your own use, that purchase is part of the consumer market. If you buy a lawnmower to use in a lawn service business, then the lawnmower purchase is part of the business market.



4-3

B2C stands for the consumer market, that is, businesses selling to consumers. Consumers use their purchases for themselves.



Reality Check

Give at least three examples that show how you are part of the consumer market.

The Business Market

Customers in the business market buy products for use in a business. (Remember that the term *product* includes goods, services, and ideas.) In other words, a customer in the business market is a business that buys products from another business.

The business market is sometimes referred to as **B2B**, which means business selling to business, 4-5.

The business customer uses the products it buys for the business. How are products used in a business? There are three types of business uses for products:

- **Making New Products.** Many businesses buy products to make new products. These types of businesses are often referred to as *producers*. Producers buy raw materials and other products; they then form them into goods for the consumer market. For example, a bakery buys flour. The bakery is part of the business market because it buys the flour from a business; it then uses the flour to make new products, such as bread, cakes, and cookies. Those new products will then be sold to the bakery's customers.
- **Resale.** Many businesses buy finished goods to sell to consumers. Most stores buy goods from other businesses. The stores then sell those goods to you. For example, Wal-Mart buys audio players from Sony and other manufacturers. Wal-Mart is part of the business market because it buys audio players from a business; it then sells them to its customers.

**4-5**

B2B stands for the business market, that is, businesses selling to businesses. This lumber company sells its lumber to a sawmill company.

- **Running the Business.** Every business needs goods and services to run the business. Most businesses buy equipment and office supplies to run their businesses. For example, an accounting firm buys ten computers for its accountants to use. The computers are used to run the business; they are not part of the business's product. The product of the accounting firm is accounting services.

Whether a purchase is part of the consumer market or the business market depends on who buys the product and what the product is used for. Some businesses sell products to both the consumer market and the business market. For example, if a restaurant buys bread and cakes from the bakery, the transaction between the bakery and the restaurant is part of the business market, B2B. If you go to the same bakery and buy bread and cake for your family, the transaction between the bakery and you is part of the consumer market, B2C.



Reality Check

For each of the three business uses, name a specific business and describe a product it purchases and its business use.

Types of Business Customers

There are four types of customers in the business market: (1) producer, (2) reseller, (3) institution, and (4) government, 4-6.

A **producer** is a business that makes goods and services. Producers of goods include manufacturers, farmers, mining operations, and construction companies. They buy raw materials and other products to make new products. Producers can be large corporations or small businesses. For example, PepsiCo and the local dairy farm are producers. Producers of services include airlines, beauty salons, and Internet service

Types of Business Customers

Producer

Manufacturers, miners, farmers, construction, and service and idea providers



Reseller

Retailers, wholesalers



Institution

Schools, hospitals, charitable organizations



Government

Federal, state, county, and local



46

Producer, reseller, institution, and government are the four types of business customers.

providers. Southwest Airlines and the local beauty parlor are producers.

A **reseller** is a business that buys finished products to resell at a profit. The resellers that you probably are most familiar with are retail stores. Retailers buy products from a business then resell them to consumers. Resellers can be large corporations or small businesses. Target, Sears, and J.C. Penney are large corporate resellers. A local flower shop is also a reseller.

There are also resellers who sell to other businesses. These businesses buy products to sell to other businesses. This type of reseller is called a *wholesaler*. You will learn more about wholesalers and retailers in Part 5.

An **institution** is a nonprofit corporation, such as a school, hospital, or charitable organization. Institutions buy goods and services to use in running the institution. The American Cancer Society and your school are examples of institutions. When an institution

buys products, it is part of the business market. For example, your school buys food for the cafeteria from a food distributor. Your school is part of the business market.

Government consists of the organizations and institutions that run a geographic area, such as a country, and includes federal, state, county, and local governments. In many countries, including the United States, government is the largest customer group. In the United States, all governments together spend over two trillion dollars a year. Governments buy a wide range of products, from apples to zippers. Examples of government customers include the U.S. Army and the local mayor's office.

Other terms for the business market include industrial market, organizational market, and commercial market. The term *industrial market* is used because many of the businesses that sell to each other are considered industries. An *industry* is a group of businesses that produce similar goods or services. Examples of industries include the following: advertising, automobile, banking, broadcasting, construction, farming, steel, and petroleum.

Organizational market is used because *organization* is another word for business and includes institutions, governments, and nonprofit corporations. *Commercial market* is used because the term *commercial* means involved in buying and selling on a large scale. Sometimes the term *commercial* implies a for-profit business and the term *organizational* implies a nonprofit business.



Reality Check

For each type of business customer, brainstorm as many specific businesses and organizations as you can.

Customer versus Consumer

As you may have noticed, many of the terms used in marketing have more than one meaning. The term *consumer* is one of these terms. Most of the time, the term *consumer* refers to the consumer market, 4-7. When the newspapers or a marketing text say, "Consumers do this" or "Consumers think that," they are referring to members of the consumer market. In this context, the term *consumer* is used to distinguish the consumer market from the business market.

The term *consumer* also has a more general meaning. The term *consumer* is used to refer to the person who actually uses a product that is purchased. In this context, the term *consumer* is used to distinguish the user of the product from the *customer*, that is, the buyer of the product. What is the difference?

First, think of a product that you buy for yourself, such as a snack. You are the customer because you bought the snack. You are also the consumer because you ate the snack. When marketers develop a marketing mix for the snack, they will consider you as the target market and develop the marketing mix with you in mind.



4-7

The term *consumer* has more than one meaning. Most often, it refers to the consumer market.

Now consider a product that you buy for someone else, 4-8. For example, imagine that you are a parent buying food for your baby. The parent is the customer, that is, the one who actually buys the product. However, the parent does not eat the baby food. The parent is not the consumer. The baby is the consumer, the one who actually uses (consumes) the product. When marketers develop a marketing mix for baby food, they must consider the customer (parent) who buys the product and the consumer (baby) who actually eats the product. The baby food must meet the needs of the baby (the consumer) not the parent (the customer). However, the price, place, and promotion of the baby food must appeal to the parent, the person who will actually buy the baby food.



4-8

When is the customer not the consumer?
When he or she buys something that someone else uses.

The parent is still part of the consumer market, even though he or she does not consume the baby food. The parent did not buy the baby food to sell to someone else; therefore, the parent is still part of the consumer market (not the business market).

In the business market, the customers are often *not* the consumers. Many businesses have a special department that buys all the products needed for the company. This department is often called the *purchasing department*. This department researches the products that the business needs, and then buys the best products at the best prices. Workers in the purchasing department are often called purchasing agents. For example, the purchasing agent will research then purchase computers for the finance department. The purchasing agent is the customer. The employees in the finance department are the consumers; that is, they are the ones who use the computers. When marketers develop a marketing mix for the computers, they will keep both the purchasing agent and the finance department employees in mind.



Reality Check

Describe a situation in which you were the customer but not the consumer. Was your purchase part of the consumer market or the business market? Explain your answer.

Market Segments

What do marketers see when they look at a market? First, they see a group of buyers. Everyone in the group seems pretty much alike. For example, a company that makes carbonated cola beverages sees everyone who likes and buys cola drinks as their market. When all the customers for a type of product are considered together, they are referred to as a **mass market**.

However, when marketers look more closely at this mass market, they begin to see differences in wants and needs among the buyers. For example, cola companies noticed that a large part of their market wanted caffeine-free cola drinks. The cola companies decided to target this part of the cola market. They developed caffeine-free cola drinks.

The process of looking at a large market and dividing it into smaller groups with similar wants and needs is called *market segmentation*. The verb *to segment* means *to divide*. The noun *segment* means *a part of something large*. A market segment is a part of a mass market. A **market segment** is a subgroup of a larger market, 4-9. Everyone in that subgroup has similar wants and needs for a particular product. Those needs are different from those of the other segments or the mass market. A large market can

have many market segments. You can often recognize the market segments by the varieties of the product that are available. For example, the cola market has the following market segments: diet, caffeine-free, caffeine-free diet, and low-carbohydrate.

Choosing Your Target Market

One of the main purposes of market segmentation is to help a business find a target market. As you learned in Chapter 1, a target market is the specific group whose needs and wants your company will focus on satisfying. A mass market can be a company's target market. When William Wrigley Jr. developed chewing gum, his target market was the mass market of people who are able to chew gum. He was able to

Market Segmentation

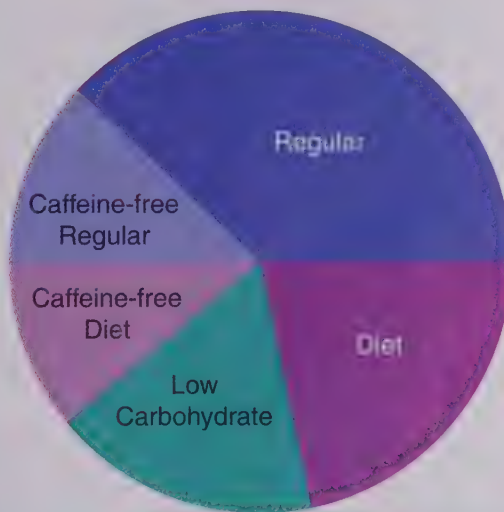
Mass Market

Everyone has the same wants and needs



Segmented Market

The people in each segment have similar wants and needs for a particular product. Those wants and needs are different from those of the other segments.



satisfy the mass market with one product. (However, as time went on, the Wrigley Company did segment its market to provide additional flavors and sugar-free gum.)

It is usually very difficult to meet the needs and wants of a mass market with one product. The reason for this is that the mass market usually consists of people with very different needs and wants for the product. For example, there is a mass market for clothing, in the sense that everyone needs clothing. However, there are many, many segments in the clothing market. For example, children have different clothing needs from adults. Children need different sizes as well as different styles, 4-10. A clothing manufacturer will want to develop a marketing mix for a specific segment of the clothing market. A clothing manufacturer might select the segment of businesswomen as its target market. The manufacturer will

then develop a marketing mix that meets the needs and wants of businesswomen. The same manufacturer might select a second target market, businessmen, and develop a marketing mix with businessmen in mind.

Market segmentation is a tool that marketers use to help them visualize possible target markets. You will learn more about target markets and segmenting a market in Part 3.

You can often tell that a market has been segmented by the variety of products in one product category. For example, almost everyone needs shampoo (the mass market), but people need different types of shampoo for different types of hair (market segments). Here are some shampoo types and the market segments they serve: dandruff shampoo for customers with dandruff, oily hair shampoo for customers with oily hair, color-safe shampoo for customers who color their hair, and chlorine-removing shampoo for customers who swim in chlorinated pools.



Reality Check

Choose a product category, for example, toothpaste. Describe at least two market segments for this product category.

Segmentation and the Marketing Concept

Think of the mass market for radio. It includes everyone who listens to radio. Here are some examples of people in the mass market for radio: people who like hip-hop; people who like country and western music; people who like jazz; people who only listen for the news, traffic, and weather reports on the way to work; people who like classical music; people who listen to sports; and people who like talk radio shows. Some of these people do not enjoy listening to other kinds of music or programs. For example,

4-10

Everyone needs clothing; however, there are many different segments in the clothing market.

most of the people who like classical music do not enjoy hip-hop. How can one radio station meet all the needs and wants of a mass market?

A radio station that tried to meet the needs and wants of everyone in the mass market would have to include a little bit of everything. The station might have some news, weather, and traffic in the morning, some jazz, some hip-hop, some classical, some sports, and some talk shows. The result might be that no one would like the radio station. The mass market for radio is made of people who all want radio, but they want different kinds of programs. It is very difficult to meet the needs and wants of everyone in a mass market.

The marketing concept says that the best way to make a profit is by satisfying customer needs and wants. Since it is often impossible to satisfy the needs and wants of everyone in a mass market, a company can often more successfully follow the marketing concept by targeting a market segment, rather than a mass market. The marketers can then focus on satisfying the customers in that market segment. The marketers will be able to follow the marketing concept because they will be better able to satisfy the customers in this market segment. Many businesses have more success when they try to satisfy the needs and wants of a small market segment made of customers with similar needs.

In the radio station situation, each station chooses a market segment to target. The mass market for radio can be divided into

market segments based on the type of music and programs that the market segment likes. Each market segment consists of people who want the same kinds of programs. Market segments for radio might include hip-hop, soft rock, hard rock, country and western, jazz, classical, talk shows, and news.



Reality Check

List two radio stations with which you are familiar. Describe the market segment that is the target market for each station. Describe the typical person who might listen to each station.

Marketing Strategy

One of the major tasks of the marketing function of business is to develop a marketing strategy. A **marketing strategy** is the selection of a target market and the development of a marketing mix to meet the needs and wants of the target market. The target market and marketing mix decisions are part of a document called a *marketing plan*. The marketing plan provides the guidelines for all marketing activities. The marketing plan states the target market and the marketing mix. The marketing plan includes all the details for how the decisions will be carried out. The seven functions of marketing are usually covered in a marketing plan.

CHAPTER 4 REVIEW

Remember This

- A market is a group of people who (1) want a product, (2) are able to buy it, (3) are willing to buy it, and (4) have the authority to buy it.
- The consumer market consists of customers who buy products for personal use. The business market consists of customers who buy products for use in a business.
- The three business uses for products are (1) making new products, (2) resale, and (3) running the business.
- There are four categories of customers in the business market: (1) producers, (2) resellers, (3) institutions, and (4) government.
- Consumers use (consume) products; customers buy (purchase) the products.
- One of the main purposes of market segmentation is to help a business find a target market.
- A marketing strategy consists of a target market and a marketing mix.

Review Concepts

1. Use the word *market* in two different sentences with two different meanings.
2. Are you part of the market for coffee? Explain your answer.
3. Explain the difference between the consumer market and the business market.
4. Give an example of each of the three business uses of products.

5. List three products that could be sold both to the consumer market and the business market, and explain a use in each market.
6. Describe the difference between a producer and a reseller.
7. Name an institution with which you are familiar. List ten products that institution would need to buy to run the institution.
8. List four synonyms for the business market.
9. Explain how a person can be a customer but not a consumer.
10. What is a market segment?
11. Why might a marketer want to segment a market?
12. What is a marketing strategy?

Think Critically

1. Name a product that you would like to own. Explain whether a marketer would consider you part of the market for that product.
2. Name ten businesses that sell to the consumer market.
3. List ten goods that you buy (or your family buys) that are part of the consumer market.
4. List five services that you buy (or your family buys) that are part of the consumer market.
5. Imagine that you are planning to open a retail store. List ten products that you would have to buy to run the store.

6. Imagine that you are a manufacturer. Name a product that you would like to manufacture. List three materials (goods) you would have to buy to make that product. Explain why these purchases would be part of the B2B market.
7. Can a business sell the same products to both the consumer market and the business market? Explain your answer and give an example.
8. Suppose a marketer chose you and people like you as a target market. What label would you give your market segment? List at least five characteristics of your market segment.

Connect to Business

1. Visit a local business, a department in a large store, or use the business where you work. Describe the market segment you think that business has chosen as its target market. Then arrange to interview a manager. Find out the target market that this business has chosen. Find out how the business chose that target market.
2. Visit a local business or use the business where you work. Name the business. List the products the business has purchased to resell to customers or to make into new products to sell to customers. List the products the business has purchased to run the business.
3. Visit the library or surf the Internet to find advertisements from businesses

that sell to other businesses and organizations. Select one of the ads, make a copy, and then write a report that describes the business that advertised, the product it advertised, and the target market for that product. How will the purchasing business use that product?

Explore Careers

1. Would you like to work for a company that sells to businesses? Visit a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com. Search for B2B marketing jobs. Select one that appeals to you. If you were in that position, what would you be doing? What qualifications would you need? Why does this position appeal to you?
2. Obtain the "Want Ads" section of a newspaper. Cut out all the marketing-related jobs, including sales. Organize the ads into B2C jobs and B2B jobs.
3. Find a company that sells equipment to businesses, for example, John Deere (www.deere.com). Visit the Web site. Describe the company and its products. Explore the Web site to learn about careers in marketing with the company. Choose one career or job. Name the job title and describe what you would do if you had that job. What would a typical day be like? What are the qualifications for this job? Would you like this job? Explain why or why not.

CHAPTER 4 REVIEW

Connect to the Internet

1. Visit the Web site of a business that sells products to the consumer market. Types of businesses you could visit include automobile manufacturers, fast-food restaurants, sports equipment, clothing, and books. Print the home page. What is the mass market for this Web site's products? Based on the Web site, which market segment did this business choose to target? Describe the target market.
2. Visit the Web site of a government organization. For federal government Web site ideas, visit www.firstgov.gov, and click on the A-Z Agency Index. Your local county, city, or state may also have a Web site. Choose one of these government Web sites. Print the home page. What is the purpose of this Web site? Describe the target market.

Social Responsibility

Marketing Terms

social responsibility
business social responsibility
laws
ethics
honesty
integrity
responsibility
confidentiality
code of ethics
diversity
philanthropy
public service advertisement (PSA)

After studying this chapter,
you will be able to

- describe the relationship between business and society.
- list the three requirements of business responsibility and give an example of each.
- name the three areas for which there are laws affecting business and marketing.
- list four ethical qualities that employers expect in employees.
- describe how a business can contribute to society.
- list three benefits of social responsibility to business.

Think about all the goods and services you use in your daily activities. What would your life be like if you had to create and produce all these goods and services yourself? You could not do it. Business provides the goods and services that enable Americans to enjoy a high standard of living, 5-1. Business provides most of the jobs and income in our economy. In addition, businesses and workers pay taxes to the government. The government then uses this money to provide goods and services to the country, such as roads, national parks, and public schools.



businesses have caused great harm to society. For example, a chemical company produced fertilizer that helped farmers grow crops. However, at the same time, the company put dangerous wastes into the water. The dangerous wastes contaminated drinking water and caused people to become ill with cancer and other diseases.

The responsibility of corporations to society is often called corporate social responsibility. However, all businesses have a social responsibility. **Business social responsibility** is the obligation to make business decisions that consider the impact on society. It includes the requirement to reduce harmful impacts of business processes and to contribute to improving society, 5-2.

5-1

What would your life be like if there were no businesses? Where would you meet your friends? How would you get the things you need?



Reality Check

How does business impact your life? Give at least three examples.

What Is Social Responsibility?

Social responsibility is the responsibility that each person has not to harm another person. It includes a duty to help others and to improve society in general. A business also has social responsibility, just as individuals do.

Business has the potential to do great good. Most businesses provide many benefits to society, as well as make a profit for themselves. For example, a drug company develops medicines that save lives. Business also has the potential to do great harm. Some



5-2

Businesses have a responsibility to society. They should reduce the harmful impact of business processes and contribute to improving society.

Business social responsibility can be seen as based on three requirements: (1) be legal, (2) be ethical, and (3) be philanthropic.

Be Legal

Every business is obligated to obey the law. **Laws** are a country's rules for proper behavior. In the United States, laws are made through local, state, and federal governments. Laws are often made as a reaction to situations in which people or businesses have harmed others. For example, many factories did not protect workers from dangers in the workplace. As a result, thousands of workers died or were seriously injured on the job. The Occupational Safety and Health Act of 1970 was passed to require employers to protect the safety and health of their workers. Since then, deaths have been cut in half; and injury and illness rates have decreased by 40 percent.

Laws that affect business and marketing fall into three areas: (1) fair business practices, (2) safety, and (3) environmental protection.

Fair Business Practices

Do you think the following business practices are fair?

- A company refuses to hire a person who needs a wheelchair to get around.
- A company makes false claims for its product.
- A company uses the trademark of another company, without permission.

Businesses are expected to treat all individuals and organizations fairly. The United States has passed laws that require fair treatment of employees, customers, and competitors. Civil rights laws prohibit discrimination based on race, national origin, religion, gender, age, or disability. Other laws require businesses to be honest in advertising

and product labeling. Figure 5-3 lists the major laws governing fair business practices.



Reality Check

Give an example that shows a business following fair business practices.

Safety

What would you think of a company that sold a toy that injured children? What would you think of a company where most of the employees got hurt on the job? Society expects businesses to provide for the safety of their employees and consumers. The United States has passed laws that require employers to provide a safe working environment. Other laws require products to be safe. Figure 5-4 lists the major laws governing workplace and product safety.



Reality Check

Give an example that shows a business protecting the safety of its workers or customers.

Environmental Protection

How would you feel if you lived near a factory, and the air was always so thick with smoke that you were always coughing? What would you think if you wanted to buy a home, but found out that the land under the house was contaminated with hazardous chemicals?

The *environment* includes the air, water, and soil of the earth. Businesses are expected to protect the health of people, plants, and animals by protecting the environment. The United States has passed laws that require businesses to reduce environmental

Laws Concerning Fair Business Practices

Date	Name	Purpose
1790, 1952	Patent laws	Protect the rights of inventors
1890	Sherman Antitrust Act	Prohibit activity that interferes with competition
1914	Clayton Antitrust Act	Prohibit businesses from selling the same product at different prices and other activities that interfere with competition
1914	Federal Trade Commission Act	Prohibit unfair business practices, such as fraud, deception, and unfair methods of competition; establish the Federal Trade Commission
1938	Fair Labor Standards Act	Establish minimum wage, overtime pay, record keeping, and child labor standards
1946	Lanham Act	Protect brand names and trademarks
1962	Kennedy's Consumer Bill of Rights	Protect consumer rights
1963	Equal Pay Act of 1963	Protect men and women from sex-based wage discrimination
1964	Civil Rights Act of 1964, 1991	Prohibit discrimination based on race, color, religion, sex, or national origin
1966	Fair Packaging and Labeling Act	Prohibit unfair or deceptive labeling and packaging of consumer products
1967	Age Discrimination Employment Act of 1967	Protect individuals who are 40 years of age or older
1975	Consumer Goods Pricing Act	Prohibit manufacturers and retailers from setting a fixed price for a product
1976	Copyright Law of 1976	Protect the rights of the authors of written works
1980	Trademark Counterfeiting Act	Prohibit the sale of counterfeit goods
1990	Nutrition Labeling and Education Act	Require accurate nutritional labeling on processed foods; prohibit exaggerated health claims
1990	Americans with Disabilities Act	Prohibit discrimination against those with disabilities

53

Over the years, the United States government has passed laws to ensure fair business practices.

pollution, protect endangered animals, and clean up hazardous waste sites. The Environmental Protection Agency (EPA) was established in 1970 to make sure that environmental laws are followed. Figure 5-5 lists the major laws governing environmental protection.



Reality Check

Give an example that shows a business protecting the environment.

Laws Concerning Workplace and Product Safety

Date	Name	Purpose
1906	Federal Food and Drug Act	Prohibit the sale of impure foods and medicine
1958	National Traffic and Safety Act	Require safety standards for automobile tires
1966	Child Protection Act	Prohibit the sale of dangerous toys to children
1967	Federal Cigarette Labeling and Advertising Act	Require written health warnings on cigarette packages
1970	Occupational Safety and Health Act	Protect the health and safety of workers
1971	Public Health Cigarette Smoking Act	Prohibit tobacco advertising on radio and television
1972	Consumer Product Safety Act	Require safety standards for products
1990	Children's Television Act	Limit the amount of advertising on children's television programs

5-4

Workplace and product safety laws are necessary because some businesses have unsafe workplaces or sell unsafe products.

Be Ethical

Suppose an American company has a manufacturing plant in a foreign country. At that plant, children work long hours instead of going to school. What would you think of that company? Suppose a company sells soft drinks in a bottle with a concave bottom. The concave bottom makes the bottle seem to contain more liquid than it actually does. What would you think of that company? The actions by these companies are legal. Many people, however, would consider their actions unethical.

Ethics are rules for deciding the right behavior in a situation. Personal ethics are the rules each individual uses to make his or her own decisions. Professional ethics are ethics developed by a professional organization for its members to follow. Business ethics are the rules that a business uses to make its decisions.

Personal Ethics

People develop a personal set of ethics based on what they were taught at home, by their religion, and through their personal experiences. People may differ in their personal ethics. However, employers generally agree on the type of ethical behavior they expect from employees. Employers expect the following ethical qualities in employees: honesty, integrity, responsibility, and confidentiality.

Honesty includes telling the truth, not stealing, doing the work assigned to you, not wasting time, keeping accurate records, and respecting the property of others.

Integrity is the quality of following rules, even if no one is around to enforce them. Integrity includes treating people fairly, applying rules consistently, and being unbiased and unprejudiced.

Laws Concerning Environmental Protection

Date	Name	Purpose
1967	Air Quality Act	Reduce air pollution
1969	National Environmental Policy Act	Protect human health and the environment from pollution
1970	Clean Air Act	Reduce air pollution
1972	Clean Water Act	Reduce water pollution
1972	Federal Insecticide, Fungicide, and Rodenticide Act	Protect health and environment from dangerous pesticides
1973	Endangered Species Act	Protect endangered plants and animals from destruction
1974	Safe Drinking Water Act	Protect the quality of drinking water
1976	Resource Conservation and Recovery Act	Protect health and environment from hazardous waste
1976	Toxic Substances Control Act	Protect health and environment from toxic substances used in industry
1980	Superfund Act	Provide for cleanup of hazardous waste sites
1986	Emergency Planning Act	Help communities protect public health, safety, and the environment from chemical hazards
1990	Oil Pollution Act	Prevent and respond to catastrophic oil spills

5-5

Laws protecting the environment help protect the health of people, plants, and animals.

Responsibility is the quality of being reliable, following through on your promises, and performing tasks assigned to you.

Confidentiality is the ability to keep confidential information private. Company information that is private is called *confidential information*. For example, plans for a new product are confidential. If anyone outside the business knew this information, the result could damage the company. Confidential information is also called *privileged information*.

Professional Ethics

People in some professions, such as doctors, webmasters, and marketers, develop a code of ethics. A **code of ethics** is a list of rules to help a person make ethical decisions. A professional organization develops a code of ethics to help its members make ethical decisions. The American Marketing Association is a major professional organization for marketers. Figure 5-6 shows a portion of its code of ethics.



Reality Check

Think of a job that you have or had. Make a list of your ethical behaviors on that job. If you have not worked, make a list of your ethical behaviors at school.



Reality Check

What kind of ethical behavior would you expect from a salesperson?

American Marketing Association CODE OF ETHICS

Members of the American Marketing Association are committed to ethical professional conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics:

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations and actions function to identify, serve and satisfy all relevant publics: customers, organizations and society.

Marketers' Professional Conduct must be guided by:

1. The basic rule of professional ethics: not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. The accurate representation of their education, training and experience; and
4. The active support, practice, and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor and dignity of the marketing profession by:

1. Being honest in serving consumers, clients, employees, suppliers, distributors, and the public;
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual, customary, and/or legal compensation for marketing exchanges.

Rights and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. Appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.

Organizational Relationships

Marketers should be aware of how their behavior may influence or impact the behavior of others in organizational relationships. They should not demand, encourage, or apply coercion to obtain unethical behavior in their relationships with others, such as employees, suppliers, or customers.

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information;
2. Meet their obligations and responsibilities in contracts and mutual agreements in a timely manner;
3. Avoid taking the work of others, in whole, or in part, and representing this work as their own or directly benefiting from it without compensation or consent of the originator or owner; and
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization of others.

Any AMA member found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.

Many professional organizations establish a code of ethics to guide their members. This one is from the code of ethics of the American Marketing Association.

Business Ethics

Business ethics are the rules used to make ethical business decisions. From the beginning of the Industrial Revolution until recently, business had a reputation for a lack of ethics. For example, some businesses would not install worker protection measures until laws were passed to force them to do so. Even then, a few businesses would not do so until sued by the ill and injured.

Ethical behavior is essential to developing business relationships, and good business relationships are the key to success in the twenty-first century. In order for business to run smoothly, people have to be able to trust each other. Imagine that you are in charge of maintaining equipment in a large factory. The company that repairs that equipment has promised to send a repairperson today. However, the repairperson never shows up and the company does not call you. Such behavior undermines trust and creates problems in running a business.

In the late twentieth century, changes in society resulted in pressure on businesses to be more ethical. Customers wanted to buy products that did not harm the environment. They also wanted products that were not made by child labor in foreign countries. Businesses wanted to develop relationships with business partners they could trust. When a business acted in an unethical way, the media covered it. The result was often a loss of sales or a drop in stock value.

As a result of these pressures, businesses began to pay more attention to ethics and social responsibility. Businesses developed their own codes of ethics. (These codes are also called *codes of conduct*.) These codes are often built around the concepts of integrity, honesty, responsibility, and confidentiality. About 60 percent of businesses in the United States have a formal ethics program.

Many businesses are concerned about diversity. **Diversity** is a word used in business to refer to a group that includes people from two or more different backgrounds. The related word *diverse* means different. American society is made of people from many different racial, cultural, religious, and experiential backgrounds. In addition, customers in the global market are from a wide variety of countries and cultures. To meet the needs of this diverse group of customers, businesses want to make sure that they hire people from diverse backgrounds and create products that meet diverse needs. Many companies have developed policies to ensure that all employees, customers, and business partners are treated fairly.



Reality Check

Have you ever worked for a company or been part of an organization that had a code of ethics? What were some of the rules in that code?

Ethical Decision Making

Although each person develops his or her own way of making decisions, some general guidelines can be helpful. The general rules for problem solving can be applied to ethical decision making, 5-7.



Reality Check

Think of a situation in which you need to make an ethical decision. Use the steps in Figure 5-7.

Be Philanthropic

The third requirement of social responsibility is philanthropy. **Philanthropy** consists of actions that improve human

Steps in Ethical Decision Making

1. State the problem.	Write down the problem to be solved, the question to be answered, or the decision to be made. Use only a sentence or two.
2. Gather information.	Research the facts and options. You may need to consult with your supervisor. You might also want to read over the company code of ethics.
3. List options.	Make a list of all the options. If you cannot think of more than one option, consult with others for ideas.
4. Evaluate options.	For each option, list all the good outcomes (advantages) and all the bad outcomes or problems (disadvantages).
5. Consider ethical implications.	Think about the effect of each option on others. Include yourself, your business, your customer, your community, and any other person or group of people who might be affected. Use your personal, professional, and company code of ethics. Ask others for advice. Ask yourself, "How would I want to be treated if I were the customer?"
6. Make a decision.	Choose the option that is best in terms of business goals and ethics.
7. Implement the decision.	If the decision requires complex action, develop a plan. The plan should also take into account the effect of all actions on others.
8. Evaluate results.	Judge the results of your decision and plans. Use criteria based on achieving business goals and achieving ethical goals. Ask your supervisor or others to help you evaluate the results.

5-7

The steps in ethical decision making are similar to the steps in problem solving.

welfare and spread goodwill. *Human welfare* means the health, happiness, and well being of people. Companies improve human welfare by contributing to charities and enabling their employees to participate in volunteer activities, 5-8. *Goodwill* is the positive feeling people get about a company when it does good things for the community. For example, Levi Strauss & Co. (maker of jeans) and its Levi Strauss Foundation donate more than \$11 million annually to charities around the world. Some of the projects that this money supports are AIDS education and prevention and increasing economic development and educational opportunities for women and children.

The Four Ps and the functions of marketing can be used directly to improve

human welfare. Have you heard of McGruff the Crime Dog or Smokey the Bear? These are only two of many characters created by the Ad Council. The Ad Council is a nonprofit organization that develops public service advertisements. A **public service advertisement (PSA)** is an advertisement whose goal is to publicize information that will contribute to human welfare. For example, in 1985, the Ad Council developed PSAs with the crash test dummies, Vince and Larry. The purpose of these ads was to get people to use safety belts in their cars. Since then, safety belt usage has increased from 21 percent to 70 percent, and an estimated 75,000 lives have been saved.



Photo courtesy of Wal-Mart, Tewksbury, MA

5-8

Many companies contribute money to local organizations that provide services to their communities.



Reality Check

Give an example that shows a business being philanthropic.

Benefits of Social Responsibility

In the past, some businesses complained that it was too expensive to be socially responsible. Today, businesses realize that ignoring social responsibility can be bad for business. Research has shown that businesses that act in socially responsible ways can benefit financially. Behaving in a socially responsible way can benefit business in three ways:

- **Save Money.** When businesses meet the requirements of pollution control and other environmental regulations, they often find that they save money. For example, one company installed pollution control equipment and eliminated 1.5 billion pounds of air, land, and water pollution. Because of this pollution control, the company also saved \$790 million.
- **Build a Good Reputation.** Socially responsible behavior builds a company's good reputation and often leads to positive publicity. For example, *Business Ethics* magazine publishes a yearly list of the 100 best corporate citizens. The companies are evaluated on the basis of their performance in these areas: environment, community relations, employee relations, diversity, and customer relations. Companies that have been on their list include the Walt Disney Company, The Gap Inc., and Starbucks.

When a company has a positive reputation, it attracts new customers and increases the loyalty of current customers. Loyal customers buy more products, leading to more sales and profits. A good reputation also attracts qualified and ethical business partners, employees, and investors. Qualified and ethical business partners and employees also lead to increased profits.

- **Increase Worker Productivity.** *Worker productivity* is the amount of quality work a worker can produce in a given amount of time. When working conditions are safe, productivity improves. When workers are treated well, productivity improves. When workers are included in decision making, productivity improves. When productivity improves, the company makes more money.

CHAPTER 5 REVIEW

Remember This

- Business provides most of the goods, services, and ideas that society uses. Business also provides most of the jobs and income in the economy.
- Every person and every business has the responsibility not to harm others.
- Business social responsibility has three requirements: (1) be legal, (2) be ethical, and (3) be philanthropic.
- Laws that affect business and marketing fall into three areas: (1) fair business practices, (2) safety, and (3) environmental protection.
- Most employers expect the following ethical qualities in employees: honesty, integrity, responsibility, and confidentiality.
- A business can improve human welfare through giving to charity, enabling their employees to volunteer, and supporting community activities.
- Social responsibility can benefit business in three ways: (1) save money, (2) build a good reputation, and (3) increase worker productivity.

Review Concepts

1. What is the relationship between business and society?
2. Explain what social responsibility is.
3. Do businesses have social responsibility? Explain.
4. What are the three requirements for business social responsibility?

5. Give three examples of fair business practices.
6. Look at the list of laws concerning fair business practices (Figure 5-3). Which of these laws affect workers?
7. List three types of ethics.
8. Give an example of each of the four ethical qualities that employers expect.
9. Why do professional associations develop codes of ethics?
10. Why are business ethics important?
11. Why do many businesses want to hire people from diverse backgrounds?
12. Give an example of a philanthropic activity.
13. What benefits do businesses receive from being socially responsible?
14. How can a business improve the productivity of its workers?

Think Critically

1. Describe what the world might be like if businesses had no sense of social responsibility.
2. Why do governments pass laws?
3. Choose one of the laws listed in Figures 5-3, 5-4, or 5-5. Describe how that law has protected you personally.
4. Imagine that you are an employer planning to hire someone. Are the four ethical qualities equally important or is one more important than the others? Explain your answer.
5. Write a Student Code of Ethics.

CHAPTER 5 REVIEW

6. Analyze the AMA Code of Ethics, Figure 5-6. Using the concepts you learned about being legal and ethical, describe how the AMA Code encourages marketers to be ethical. Use examples from the Code to support your points.
7. Give an example of confidential business information.
8. Imagine that you are a small business owner in your community. What philanthropic activities would your business participate in or support?

Connect to Business

1. Contact your employer or a business in your community and ask for their code of ethics. How many points are in the code of ethics? How does the code cover the ethical qualities of honesty, integrity, responsibility, and confidentiality? How does the code of ethics affect you as a worker and/or customer? Do you think it is a good code of ethics? Explain your answer.
2. Find an article in a newspaper or magazine that describes one or more socially responsible activities of a company. Name the company. Describe the event or activity. How does the event or activity improve human welfare or spread goodwill? Why did the company choose this particular activity or event?
3. Use the library or Internet to search for articles about businesses that acted unethically or harmed people or the environment. Choose one of the articles. Name the company, describe the event, and describe the harm done. What consequences did the business suffer?

Explore Careers

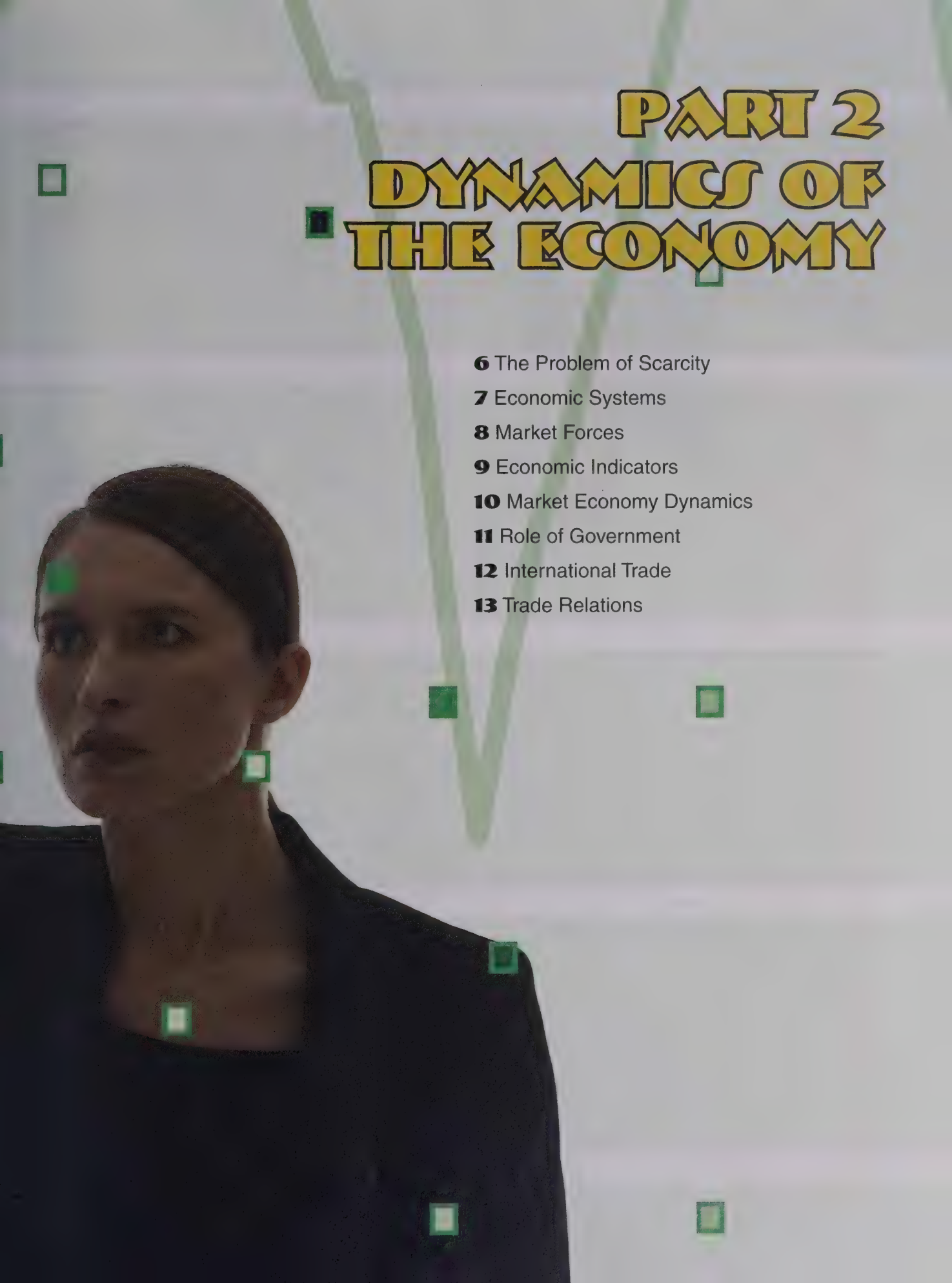
1. The philanthropic activities of a company are often handled by the public relations department. Public relations is part of marketing and is usually considered part of the promotion function. Look in your local newspaper or search the Internet for jobs in public relations, community affairs, and public affairs. Find a description for a job that entails developing philanthropic activities for the organization. Describe the job and its qualifications. Does this job appeal to you? Explain why or why not.
2. Ethics has become important in college sports. Now many colleges and universities have athletic compliance officers. The goal of compliance officers is to make sure that the athletes and the schools follow the rules of the National Collegiate Athletic Association. Using library resources and the Internet, find out why athletic compliance officers are necessary. Write a report explaining why compliance officers are needed and what their job entails. If possible, interview a compliance officer and find out what kinds of ethical issues athletes face on a daily basis. How does the officer help them make ethical decisions?
3. Visit the Web site of the U.S. Department of Labor (www.dol.gov). Find the link for the current Summer Employment Program. What kinds of jobs are available through the DOL? Which job appeals to you the most? What would you have to do to get that job?

Connect to the Internet

1. Visit the Web site of the Advertising Council (www.adcouncil.org). What is the mission of the Ad Council? List the issues that the Ad Council is working on. Choose one issue or campaign, and describe what the Ad Council is doing. Has the Ad Council been effective?
2. Visit the Web site of a large corporation whose products you are familiar with, for example, J.C. Penney (www.jcpenney.com) or Wendy's (www.wendys.com). Find the link for "Community," "Community Relations," or "Responsibility." (You may have to click the "About Us" link first.) Name the company, and print out its home page. What is this company doing to improve human welfare or promote goodwill? Are they successful? How do you feel about this company, now that you know about its philanthropic activities?
3. Visit the DECA Web site (www.deca.org). Click on the "High School DECA" link, then click on the "Business Partners" link, and then click on the "National Advisory Board" link. The National Advisory Board is a list of organizations that support DECA. Choose one. Find out how it supports DECA. Why does it support DECA? Visit the organization's Web site. Does it participate in any other philanthropic activities? List them. How do you feel about this organization, now that you know about its philanthropic activities?
4. Visit the Web site of the Occupational Safety and Health Administration (www.osha.gov). Click on the link for "Teen Workers." What is the purpose of the OSHA Web site for teens? What are the rights and responsibilities of teen workers?

How does a market economy work?



A woman with dark hair, wearing a dark top, is looking up at a large green line graph on a screen. The graph shows a sharp upward trend. The background is a light gray wall with several small green squares scattered across it.

PART 2 DYNAMICS OF THE ECONOMY

- 6** The Problem of Scarcity
- 7** Economic Systems
- 8** Market Forces
- 9** Economic Indicators
- 10** Market Economy Dynamics
- 11** Role of Government
- 12** International Trade
- 13** Trade Relations

6

The Problem of Scarcity

Marketing Terms

scarcity
opportunity cost
economic system
economic inputs
economic outputs
land
natural resources
labor
entrepreneurship
capital
final product
capital goods
infrastructure
technology
advanced technology

After studying this chapter,
you will be able to

- explain why individuals and nations must make economic choices.
- give an example of an opportunity cost.
- describe what an economic system does.
- list the three major economic inputs and give an example of each.
- explain why infrastructure is important to an economic system.
- describe the benefits of advanced technology.

Think about the things you need and want. For example, you may need a snack, a pen, and a new shirt. You may want to go to a movie, out to dinner with friends, and on a vacation. You may want to buy a gift for a friend, contribute to a charity, and save money for the future.

Can you afford everything you need and want? No. Why not? You do not have enough resources to meet all your needs and wants. What are your resources? Your resources include time, money, and your ability to work to earn money. You do not have enough resources because of a problem called scarcity. **Scarcity** is a condition in which there are not enough resources to meet needs, 6-1.

**6-1**

Nations and individuals struggle with scarcity of time and resources. For example, if your school does not have enough computers for everyone, you may have to share or wait your turn.

Scarcity

Individuals and nations struggle with the problem of scarcity. One of the qualities of a resource is that it can be used only once. For example, a dollar used to buy a one-dollar snack cannot also be used to buy a one-dollar pen. A tree that is used to make tables cannot also be used to make paper. The problem of scarcity requires individuals and nations to make choices. Choices made to solve the scarcity problem are called *economic choices* or *economic decisions*.

Every economic decision has a cost. When you choose, you lose the opportunity to do the thing you did not choose. The **opportunity cost** is the value of the opportunity you did not choose. If you decide to buy a one-dollar snack instead of

a one-dollar pen, the opportunity cost of the snack decision is the pen. If a business decides to use a forest to make tables instead of paper, the opportunity cost is the paper that could have been made from those trees. Often, when you make an economic decision, there are more than two options. The opportunity cost is the value of the best option that you did not choose.

Here is another example. Suppose you have two free hours, and your choices are watching TV or going to work and earning \$20. If you decide to watch TV, you will not earn \$20. If you decide to work, you will miss your favorite TV shows. Your opportunity cost of deciding to watch TV is \$20. If you choose to work, your opportunity cost is missing your favorite TV programs and not knowing what happened when your friends ask you what you thought about the shows. You make your decision based on your personal evaluation of which is more important to you.

Like you, nations have economic needs and wants. Nations want to encourage the development of businesses that provide food, clothing, and shelter for their citizens. Nations also want to provide education, support a military, conduct scientific and medical research, protect the environment, and support the arts. Like you, nations do not have enough resources to meet all their needs. Like you, nations have to make choices. Like you, nations have opportunity costs.

For example, resources that a nation spends on building a military cannot be used for medical research. The opportunity cost of building a military is the medical research that was not funded. Nations make these decisions based on the nation's evaluation of what is important. National economic decisions are made and carried out through the economic system and the political system in that nation.



Reality Check

Describe an economic decision that you recently made. List the options that you had. What was the opportunity cost of that decision?

An Economic System

A *system* is a set of elements that work together. A system consists of inputs, a mechanism, and outputs. For example, in a computer system, the inputs are the keystrokes. The mechanism includes the computer programs and the printer. The output is the document that exits the printer. An **economic system** is the system that a nation has developed to turn its resources into products that satisfy needs. Just like a computer system, an economic system has inputs, a mechanism, and outputs.

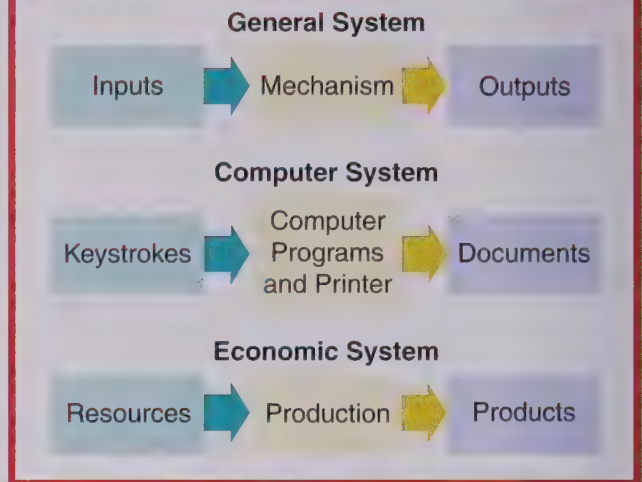
In an economic system, the **economic inputs** are the resources used to make products. The **economic outputs** are the products (goods, services, and ideas) produced by an economic system. The mechanism is production, 6-2. In Chapter 2, you learned that production is any activity related to making a product. In other words, production is the process of turning economic inputs into economic outputs. Production includes farming, mining, construction, manufacturing, and performing services. Figure 6-3 shows some simple examples of economic inputs, mechanisms, and outputs. You will learn more about the production of goods in Chapter 24.



Reality Check

Name a product that you use. The product is the economic output. List the economic inputs. Name the production process involved.

Examples of Systems



6-2

An economic system is a system for turning resources into products.

Economic Inputs

Economic inputs are also called *factors of production* or *economic resources*. Economic inputs include everything that can be used to make products. Economic inputs are the ingredients used to make all the goods, services, and ideas produced in an economy.

Think about a good that you use often, for example, athletic shoes. What was required to produce those shoes? There are many, many inputs. Here are three of the economic inputs: cotton, shoe-fabricating machines, and people who run the machines. These three inputs represent the three categories of economic inputs: land, labor, and capital. In this example, cotton represents the land input; people are the labor input; and shoe-fabricating machines represent the capital input, 6-4. The following sections will explain these categories.

Some Simple Economic Systems

Examples	Economic Inputs (resources)	Mechanism (production)	Economic Outputs (products)
Farming	Seeds, soil, fertilizer, tractor, farmers	Farming	Corn
Manufacturing	Steel, glass, plastic, cloth, factory equipment, workers	Manufacturing	Automobiles
Service	Salon, hair dryers, scissors, chairs, hair products, hair stylists	Performing services	Haircuts

6-3

Here are some simple examples of economic inputs being changed by production into economic outputs.



©2004 Photo courtesy of Reebok International Ltd.

6-4

Production of running shoes requires land, labor, and capital.

Land

Land includes all the natural resources that a nation has. **Natural resources** are raw materials. Natural resources include soil, water, minerals, plants, animals, and climate. Every good that you have was made from one or more natural resources. Every service that you use involved the use of natural resources. Natural resources are scarce. Even a rich nation, such as the United States, has limited natural resources.

Natural resources are not equally distributed among nations. Some natural resources are found only in certain parts of the world. For example, the United States is rich in minerals, such as coal, natural gas, and silver, but not diamonds. To date, commercial quantities of diamonds have not been found in the United States. Commercial diamond mines are found in South Africa and a few other countries.

The size of a nation also determines the quantity of natural resources that a nation has. For example, Japan has only 4 percent of the landmass of the United States. As a result, Japan has fewer natural resources.



Reality Check

What natural resources does your state have?

Labor

Labor refers to workers, the people who turn resources into products. Another term for labor is *human resources*. Labor includes all the people in a country who are available to work. Labor also includes the workers' levels of education, skills, and productivity. *Productivity* is the amount of work a person can do in a specific amount of time. A nation can make up for a lack of natural resources if its people are very productive. For example, Japan has few natural resources. However, Japan has the second largest economy in the world, ahead of many nations with more people and more natural resources. Japan is economically successful because its

workers are highly educated, highly skilled, and very productive. Japan compensates for its lack of natural resources with the talent and energy of its labor force, 6-5.

Another valuable quality of labor is entrepreneurship. **Entrepreneurship** is the willingness and ability to start a new business. Entrepreneurs often have new ideas or see old ideas in new ways. Entrepreneurship includes the ability to organize economic inputs into a successful business. It also includes the ability to take risks, financial and personal, to start a business. From a small boutique to a huge chain store, all businesses are started by entrepreneurs. For example, McDonald's Corporation, one of the largest corporations in the world, was started by an entrepreneur, Ray Kroc. The number and quality of entrepreneurs in a country have a major impact on the success of the economy.



©JNTO

Japan compensates for its lack of natural resources with the talent and energy of its labor force.



Reality Check

Suppose you were to put together a team for a sport, a school project, or a service project. The team is your labor force. What qualities would you want in the people on your team?

Capital

Capital refers to any manufactured product that is used to make another product. For example, capital includes machinery, buildings, vehicles, and computers. Whereas land and labor are natural products, capital must be manufactured. Figure 6-6 summarizes the three types of economic inputs.

Because capital consists of manufactured products, it is also called *capital goods*. For example, the shoe-fabricating machine is a capital good. The shoe-fabricating machine itself had to be made from economic inputs. The shoe-fabricating machine is not a final product. The only purpose of a

shoe-fabricating machine is to be put in a factory to make shoes. The shoes are the final product. A **final product** is a consumer product, that is, a product purchased by consumers. A final product is part of the business-to-consumer (B2C) market. **Capital goods** are manufactured products used to make final products. Capital goods are sold to businesses and are part of the business-to-business (B2B) market.

Capital is another marketing term that has many meanings. The word *capital* is often used as the short form of *financial capital*. Financial capital is money that is used to buy capital goods. As a result, the same term *capital* can be used to refer to capital goods (such as a tractor) or to money.

Infrastructure

Capital usually refers to the capital goods that individual businesses own and use to produce products. However, another important part of capital is infrastructure. **Infrastructure** consists of the transportation

The Three Types of Economic Inputs			
Input	Other Names	Categories	Examples
Land	Natural resources Raw materials	Soil, water, minerals, plants, animals, climate	Fertile soil, Mississippi River, coal, forests, salmon, temperate climate
Labor	Human resources Workers Entrepreneurs	Agricultural workers, construction workers, factory workers, miners, professionals, service workers	Farmers, electricians, steel workers, teachers, managers, flight attendants, business owners
Capital	Capital goods Equipment Infrastructure Technology	Tools, equipment, machinery, buildings, vehicles, transportation systems, utilities	Scissors, oil drills, computers, office buildings, warehouses, tractors, airports, roads, sanitation systems

6-6

An economy needs the three types of economic inputs.

systems and utilities necessary for a modern economy. Infrastructure is usually large and cannot be moved from place to place. Transportation infrastructure includes highways, bridges, railroads, public transportation, seaports, airports, and postal service, 6-7. Utility infrastructure includes sanitation systems, electric power plants, water systems, and telephone service. Infrastructure provides the foundation on which modern industry and business are built. Some infrastructure has been built by private companies, for example, the railroads and oil pipelines. However, most infrastructure has been built by governments.

Imagine that you are looking for a place to build an automobile factory. You have a choice between two areas. One area has excellent infrastructure: good roads, railroads, postal service, airports, electric power plants, sanitation, and water systems. The other area has very little infrastructure:

poor roads, no airports or rail service, no electric power plants, and no sanitation or water systems. Where would you want to build your new factory? Your answer is most likely to be “in the area with the excellent infrastructure.” Infrastructure is essential for the development of a modern economy.



Reality Check

Choose a business that you might like to start. What capital goods would you need? What natural resources and human resources would you need? What infrastructure would you use?

Technology

Another part of capital is technology. **Technology** is the use of tools to improve human life. *Tools* are any objects that can be



used to change the natural environment or to extend human capabilities. Tools include pencils, computers, bulldozers, assembly lines, and the Internet, to name just a few. Technology increases human productivity. Technology enables a person to produce more work per hour.

The level of technology available in a country has a major impact on its economy. This discussion will consider two levels of technology: early and advanced. *Early technology* includes the six simple machines (lever, wedge, inclined plane, screw, pulley, and wheel and axle) and machines powered by people or animals. In ancient times, early technology improved human productivity significantly. However, today, countries that have only early technology struggle to meet the basic needs of food and shelter.

More advanced technologies improve human productivity even more. **Advanced technology** includes industrial and digital

technologies. *Industrial technology* is powered by steam and fuel combustion. For example, automobiles and jets are powered by fuel combustion. Many factories that produce consumer goods are powered by fuel combustion. *Digital technology* uses electricity to control data. Examples include computers and the Internet. Countries with advanced technology can both meet basic needs and produce additional goods and services for sale. The benefits of advanced technology include better food and housing, better health care, and more consumer goods.



Reality Check

Describe how technology, such as the computer, improves your productivity.

CHAPTER 6 REVIEW

Remember This

- Individuals and nations must make economic choices because there are not enough resources to meet all needs and wants.
- An economic resource can only be used once.
- An economic system turns resources into products that satisfy needs.
- Economic systems have inputs, mechanisms, and outputs.
- The three economic inputs are land, labor, and capital.
- Infrastructure is important to an economic system because it provides the foundation on which industry and business are built.
- Advanced technology includes industrial technology (steam and fuel combustion) and digital technology (electricity to control data).

Review Concepts

1. Give an economic reason for why you cannot afford everything you want.
2. Suppose you have \$24. List three ways you could spend that money. Choose the way you would actually spend the money. What is your opportunity cost?
3. How is an economic system like a computer system?
4. List three mechanisms that an economy uses to turn inputs into outputs.

5. Give three examples of economic outputs.
6. Name and give an example of each of the three categories of economic inputs.
7. Why is entrepreneurship considered part of labor?
8. What is the difference between a capital good and a final product?
9. Give an example of a final good and then describe a capital good that was needed to make it.
10. Explain the two meanings of the term *capital*.
11. List five examples of infrastructure.
12. Why is technology part of the category of capital?

Think Critically

1. Give an example of scarcity in your life.
2. Think of an organization you are involved with or an activity you planned, such as a party. How did scarcity affect your plans? Give an example.
3. Suppose you had to explain the concept of opportunity cost to a friend. What would you tell him or her? Describe the example you would use.
4. Think of an activity (like cooking dinner) or a project (such as making a model airplane) that you have done. Name the activity or project. Then list the economic inputs, mechanism, and outputs.
5. The economic input of labor includes people's skills and abilities. Describe a situation in which labor might be scarce.

6. List at least five traits an entrepreneur needs.
7. When Walt Disney decided to build Walt Disney World in Florida, the land he purchased was empty, that is, nothing had been built on it. What infrastructure needed to be built?
8. List the infrastructure that you used today.
9. Researchers are constantly using technology to develop new products. Predict one new product based on new technology that you expect to see in your lifetime. How might this product improve your life?

Connect to Business

1. Name a business with which you are familiar, such as a fast-food restaurant. List the land, labor, and capital inputs. Name the production process. List the outputs.
2. What infrastructure projects are being done in your neighborhood or your state? One way to find out is to search the Internet. Use your state's name and "infrastructure projects" as keywords. Choose one project. Describe the project and its location. Why is this project being done? How will this project benefit the people and businesses in your neighborhood or state?

Explore Careers

1. When land is bought or sold it is called *real estate*. Would you like to sell real estate? What does a real estate broker or a sales agent do? Look in the newspaper or online for ads for real estate brokers and sales agents. What would a typical day be like? What are the qualifications for this job? Would you like this job? Explain why or why not.
2. Urban planners study a community's land and resources and help government and business decide the best use of the land and resources. Read the article on careers in urban and regional planning in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. How does the concept of scarcity impact the work of an urban planner? Where might an urban planner work? What kind of preparation does a person need to be an urban planner? Visit the Web site of the American Planning Association (www.planning.org). How could this organization help you in a career in urban planning? Click on the "Jobs and Careers" link. Browse the list of available jobs. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

CHAPTER 6 REVIEW

Connect to the Internet

1. Many businesses buy their capital goods and supplies online. Think of the business where you work or would like to work. Choose an item that the business needs, such as copier paper. Search the Internet to find two businesses that supply this item. Compare the Web sites and the prices. Which Web site would you use to buy the item? Why?
2. Most states have a government department that works to improve the

state's economy and encourage new businesses. Find the Web site for this department in your state. It may be called the Department of Economic Development, Department of Commerce, or Department of Economic Opportunity. What is your state doing to encourage or develop business? Choose one activity or accomplishment. Describe the activity and how it will improve the state's economy. If you were looking for a job or planning to start a business, how would that activity help you?

Economic Systems

Marketing Terms

traditional economy
 command economy
 centrally planned economy
 market economy
 consumer economy
 capitalism
 capitalist economy
 free enterprise
 private enterprise
 free market economy
 mixed economy
 transition economy

After studying this chapter,
you will be able to

- list the three basic economic questions.
- list the three types of economic systems.
- explain who answers the economic questions in each type of economy.
- describe the three major features of a market economy.
- explain why most economies are mixed.

Every nation has the problem of scarcity. Scarce resources limit the quantity of products (goods, services, and ideas) an economy can produce, 7-1. The problem of scarcity leads to three questions:

- What should we produce?
- How should we produce it?
- Who should get the products?

Examples of these questions are shown in Figure 7-2.



Reality Check

Your family is like a small nation. How do the three economic questions get answered in your family?



7-1

Land is a scarce resource. For example, should a section of land be used to graze cattle, grow crops, or build houses?

Types of Economic Systems

Economists classify types of national economic systems based on who answers the three basic economic questions. There are three basic types of economies: traditional, command, and market.

Traditional Economy

Tradition is a way of thinking and acting based on inherited, established, or customary rules. Societies based on tradition usually are also based on early technology: simple machines and human- or animal-powered machines. People perform economic and social activities the way they have always been done. Often, the elders of the society preserve the traditions and answer questions

The Three Economic Questions

Economic Question	Related Questions	Examples
What should we produce?	Which goods, services, and ideas should we produce? How much of each product should we produce?	Should we produce consumer products or weapons for the military? Should we grow crops or raise cattle? Should we explore space or research a cure for cancer?
How should we produce it?	Who should produce each type of product? How shall we use our natural resources? What production techniques should be used?	Who should be a doctor and who should be a farmer? Should we generate electricity from coal, oil, or nuclear power? Should natural areas be preserved or used for mining? Should people or computers calculate the payroll?
Who should get the products?	How will the nation decide who gets each product? How should products be distributed?	Should the rich get all the products they want? Should the head of the government get whatever he or she wants? How should the nation provide for the poor? How should the country ration scarce resources in times of crisis?

7-2

Economic systems develop around the way each society answers the three basic economic questions.

for the society. Following tradition is seen as a way of keeping the society safe and healthy. In a **traditional economy**, the economic questions are answered by the elders based on the society's traditions, 7-3.

Traditional economies developed early in human history. There are very few traditional economies left. One example is the Bedouin people of the Middle East. Most traditional economies experience a great deal of pressure to become more modern.

Command Economy

In a **command economy**, the national government makes all the economic decisions. The government decides what, how, and for whom. For example, the government decides how much land will be used to produce wheat. It decides how many resources will go to the military and how many will go to produce consumer goods. It decides who will be farmers and who will be engineers. It decides who gets the products. Because the national government (also

known as a central government) plans the economy, a command economy is also called a **centrally planned economy**.

One of the goals of a command economy is to make sure that everyone in the nation shares the limited resources. In a command economy, the government makes sure that everyone who wants to work gets a job. The government also makes sure that everyone gets an education, medical care, and a place to live.

The modern command economies are part of a political philosophy called communism. *Communism* is a political and economic system in which the Communist Party controls the national government, and the national government controls the country. The national government owns or controls all the economic inputs (land, labor, and capital). The national government makes all the economic decisions. The national government also controls the military, the press, the communications media, and the education system.



7-3

Traditional economies are based on the society's traditions. Such economies developed early in human history and are based on early technology.

The great command economies of the twentieth century were the Union of Soviet Socialist Republics (now referred to as the Former Soviet Union) and the People's Republic of China (also known as China). Few countries today have a purely command economy, 7-4.

The main features of a command economy are

- government ownership of land and capital
- government control of labor
- government control of all economic activity



One of the great command economies of the twentieth century was the Union of Soviet Socialist Republics, now referred to as the Former Soviet Union.



Reality Check

Do you know anyone (or do you know about anyone) who has lived in a command economy? What was life like for that person?

Market Economy

In a pure **market economy**, individuals answer the economic questions. Individuals decide what to produce, how to produce it, and who gets the products. Individuals control distribution because each individual is free to buy whatever he or she wants, based on price and ability to pay. A market economy is often called a **consumer economy** because consumers have great influence on the economy. Consumers influence the economy through what they buy and how much they buy, 7-5.

Market economies develop in countries with a political philosophy called democracy. *Democracy* is a political system in which the citizens of the country control the government through voting. Citizens in a democracy also have individual rights, such as freedom of speech. The market economy developed along with democracy. Both are based on the power and right of the individual to make choices.

The great market economy of the twentieth century was the United States, but even then the United States was not a pure market economy. There are no pure market economies today, but many countries have economies that are mostly market.

Market Economy Features

Three of the main features of a market economy are (1) private property, (2) economic freedom, and (3) market forces.



Photo courtesy of IGA, Inc.

7-5

A market economy is often called a consumer economy. Consumers influence the economy through what they buy and how much they buy.

Private Property

A market economy is based on the right of individuals to own land and capital goods. Ownership means that each person has the right to do whatever he or she wants with his or her property (as long as the action is legal). For example, a person can use his or her land to build a house, run a farm, graze cattle, build a basketball factory, or sell it to someone else. In a command economy, the national government owns all the land and decides how it is to be used.

In a market economy, individuals can buy and own capital goods. For example, anyone (who can afford it) can purchase the materials and capital goods needed to

build and run a basketball factory. Another name for a market economy is **capitalism** or **capitalist economy**. In a capitalist economy individuals own the capital goods. In a command economy, the national government owns the capital goods and decides how they will be used.

Economic Freedom

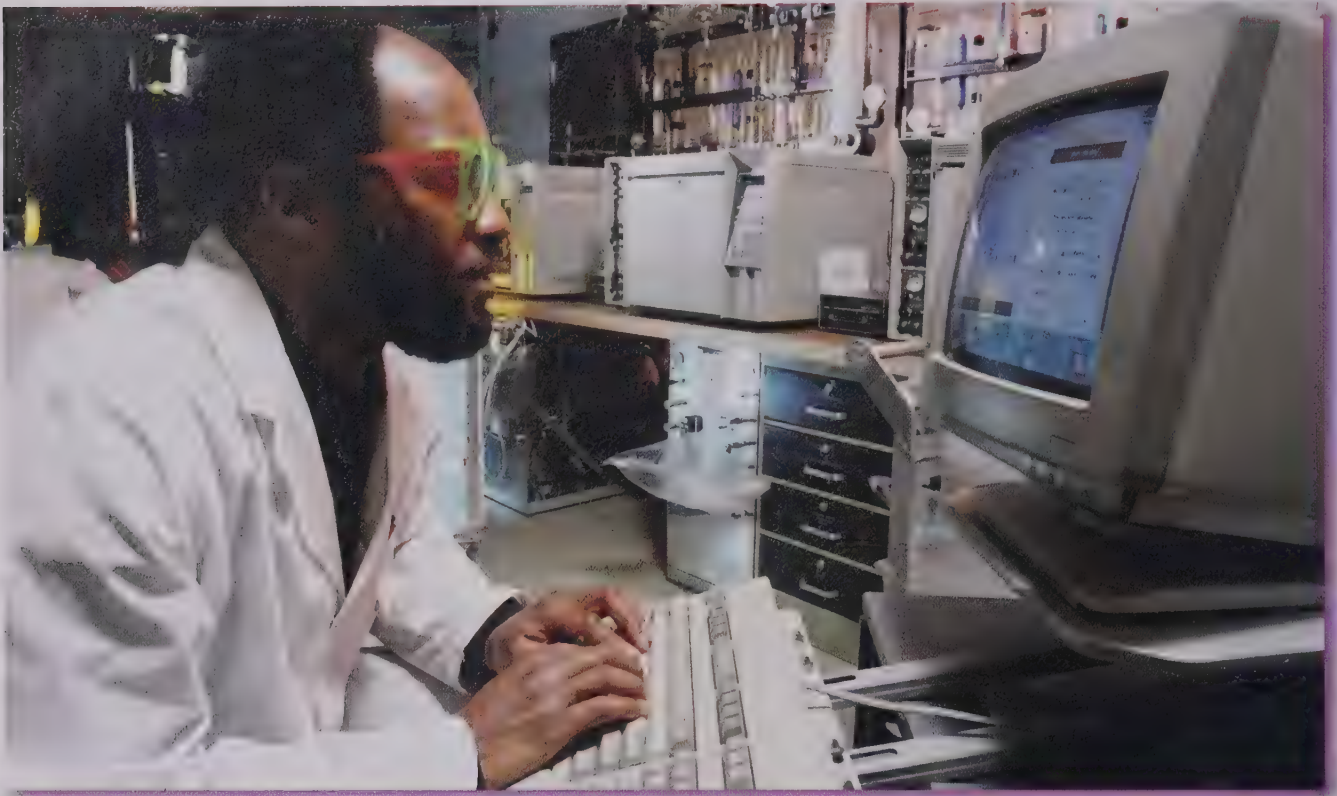
In a market economy, individuals are free to make their own economic decisions. In other words, individuals decide what to buy, how to use it, and what to sell. Each citizen is also free to start any legal business. Another word for business is *enterprise*. Another name for a market economy is **free enterprise** because individuals are free to start an enterprise. In a command economy the central government owns and runs all businesses; individuals are not permitted to start businesses.

Another name for a market economy is **private enterprise**. Activities by a government are considered public. Activities by individuals are considered private. In a market economy the enterprises are run by private individuals. In a command economy, enterprises are run by the public government.

In addition, in a market economy, individuals control their own labor. Each person is free to decide what work he or she will do, 7-6. Individuals may choose which companies they will work for. In a command economy, the government controls the labor of the individual. The government decides which citizens will do which jobs. People in a command economy are not free to choose their work or quit their jobs. However, the government does make sure that everyone who wants to work has a job.

Market Forces

A market economy is controlled by market forces. Even though individuals are free to make economic decisions, market



7-6

In a market economy, each individual decides what type of work he or she will do. This man is a research chemist.

forces influence their decisions. The three major market forces are supply and demand, the profit motive, and competition. A market economy is often called a **free market economy** because market forces are free to influence economic decisions. We will explore these forces in the next chapter.

In a command economy, the central government controls the economy and does not allow market forces to operate. Figure 7-7 compares the main features of a command economy with a market economy.



Reality Check

From your experience, describe an example of one of the features of a market economy. If the United States were a command economy, how would that example be different?

Mixed Economies

Both a pure command economy and a pure market economy have weaknesses. The main weakness of a market economy is instability. A market economy can produce great wealth and then it can crash. When a market economy crashes, people lose their jobs and cannot afford food or shelter. To solve these problems, market economies add government controls to help make the economy more stable.

The main weakness of a command economy is that it is too complicated and difficult to centrally plan and control all the details of a national economy. As a result, command economies often do not meet the needs of their citizens for food and consumer goods. To solve these problems, command

Command and Market Economies

Features	Command	Market
Who owns the economic inputs?	Central government	Individuals
Who answers the three economic questions?	Central government	Individuals
Who controls the economy?	Central government	Market forces
Main features	Government ownership of land and capital Government control of labor Government control of all economic activity	Private property Economic freedom Market forces: supply and demand, profit motive, competition
Political philosophy	Communism Socialism	Democracy
Other names	Centrally planned economy Communist economy Socialist economy Welfare state	Capitalism Capitalist economy Consumer economy Free enterprise Free market economy Private enterprise

7-7

Command and market economies differ in who answers the economic questions and in the way they answer these questions.

economies add more individual control to help meet consumer needs.

As a result of these problems, there are no pure command or pure market economies. Most modern economies are mixed economies. In a **mixed economy**, both the government and individuals are involved in making economic decisions. There are four types of mixed economies: (1) mixed command economy, (2) transition economy, (3) mixed socialist economy, and (4) mixed market economy.

Mixed Command Economy

China continues to be a Communist country with a command economy. However, beginning in 1978, the Chinese government

began a program of economic reforms. These economic reforms are designed to bring some of the qualities of a market economy into the Chinese command economy, 7-8. These economic reforms include less government involvement in farming and industry. In addition, individuals are allowed to start and run small businesses. These reforms have helped the Chinese economy grow to be one of the largest in the world.

Transition Economy

In the late twentieth century, the command economy of the Soviet Union experienced many problems. The government tried many plans to improve the production of food, housing, and consumer



7-8

China still has a command economy, but it has started introducing changes to incorporate some of the qualities of a market economy.

goods. None worked. The combined pressures of economic problems and political unrest led to the disintegration of the Soviet Union. In 1991, the Soviet Union ceased to exist. The fifteen republics that made up the Soviet Union became independent countries.

These newly independent countries had lived with a command economy for much of the twentieth century. However, many started working to develop market economies. These countries have transition economies. A **transition economy** is an economy that is changing from command to a more market economy. Examples of countries with transition economies include Russia, Ukraine, and Kyrgyzstan.

Mixed Socialist Economy

Today, there are many countries called social democracies. A *social democracy* is a country that has a democratic political system and an economy that combines command and market elements. The

citizens in a social democracy vote for their government and have many individual rights. This is a democratic element. The government collects a large percentage of taxes from the citizens; it then uses this money to make sure that every citizen has a decent standard of living. This is a socialist element. Individuals can start and run businesses. This is a market element. The government owns and operates the large, major industries, such as telecommunications and rail transportation. This is a command element. Many social democracies are very successful, both economically and politically. Examples include Sweden and France.

Mixed Market Economy

The United States is a good example of a mixed market economy. The citizens of the United States decided that they wanted the government to take a more active role to keep the economy stable and to help people in need. Examples of government

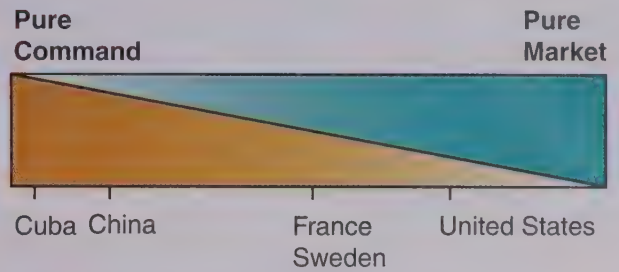
involvement in the U.S. economy include Social Security, a variety of welfare programs, and laws that regulate business. Examples of government business regulations were mentioned in Chapter 5, Figures 5-3, 5-4, and 5-5. We will learn more about why and how the U.S. government is involved in the U.S. economy in following chapters.

A Continuum

One of the ways to look at modern economies is to see them on a continuum, 7-9. On the left end of the continuum is the pure command economy; that is, an economy controlled totally by the government. On the right end is the pure market economy, that is, an economy controlled totally by individual decisions and market forces. In today's world, there are no economies at either end. The economies of the world fall in between. Their position on the continuum depends on how much government control and how much individual control the economy has.

The location of a country on the continuum can change over time. Figure 7-9 shows the locations of some countries at the beginning of the twenty-first century.

Continuum of Economic Systems



Legend

-  Amount of government control
-  Amount of individual control

7-9

There are no pure command or pure market economies. Most economies are mixed. This continuum shows how the amount of individual and government control changes across the continuum.

CHAPTER 7 REVIEW

Remember This

- The three basic economic questions are (1) what should we produce? (2) how should we produce it? and (3) who should get the products?
- In a traditional economy, tradition answers the three questions.
- In a command economy, the government answers the questions.
- In a market economy, individuals answer the questions.
- In a mixed economy, both government and individuals answer the questions.
- The three major features of a market economy are (1) private property, (2) economic freedom, and (3) market forces.
- Most economies are mixed because both a command economy and a market economy have weaknesses.

Review Concepts

1. If you were to visit a country that had a traditional economy, what would you see?
2. Why is a command economy also called a centrally planned economy?
3. Give an example for each of the three main features of a market economy.
4. Describe the economic freedoms a citizen of the United States has.
5. List the three major market forces.
6. There are many synonyms for *market economy*. List six synonyms and explain why each one describes a market economy.

7. Explain the difference between a private enterprise and a public enterprise.
8. Why are most economies mixed?
9. List four types of mixed economies.
10. What type of economy does the United States have?

Think Critically

1. Imagine that you are in charge of a new country. Which type of economy would you choose? Name the economy and give your reasons for choosing it.
2. Compare and contrast a command economy and a market economy.
3. What are the similarities and differences between a democracy and a market economy?
4. How does a mixed economy develop?
5. The United States has a mixed market economy. Which other mixed economy is most similar to it? Explain your answer.
6. What determines the location of a country on the continuum of economic systems?

Connect to Business

1. Vietnam is one of the few remaining communist countries with a command economy. Yet Vietnam is trying to increase its world trade. Research and write a short report describing what is involved in doing business in Vietnam. Search the Internet to find Vietnamese companies that want to do business with international partners.

(Visit www.vietnamwebsite.net; scroll down to the links in English; then click on "Business and Trade.") Choose one of the businesses. Describe the business and its product.

2. One of the challenges of a market or mixed market economy is to find the money to start a new business. Find out what a venture capitalist and venture capital firms do.
3. Imagine that you want to start a new business. You need to buy some property for your business, for example, a retail store or land for a farm. Find a property for your business. Try visiting the Web site of a real estate company, such as Coldwell Banker (www.coldwellbanker.com). When you locate the property, describe the location, size, and cost of the property. If there is a building on the property, describe that also. How will you use this property for your business?

Explore Careers

1. Land for business purposes is called commercial real estate. There are a wide variety of jobs in commercial real estate development, brokerage, commercial property management, and investment. Jobs include marketing, advertising, and sales. Find the Web site of a commercial real estate developer or brokerage, such as Grubb & Ellis (www.grubb-ellis.com). Click on the "Careers" link. Explore

the careers available. Choose one that appeals to you. What would a typical day be like? What are the qualifications for this job? Would you like this job? Explain why or why not.

2. Would you like to be more involved with how the government is run? Consider a career in politics. You could run for political office. Choose a political office that appeals to you, such as mayor, state or national senator, or governor. Write a short report on what the holder of that office does. Include a section on the requirements for the office and how to run for the office.

Connect to the Internet

1. Find the Web sites for two government officials or political candidates. You might choose a Democrat and a Republican for the same office. Compare and contrast the Web sites. Which Web site is more appealing? Why?
2. Which type of economic system does that country have? Look at a map or list of countries. Choose ten. Go on the Internet and find out the type of economic system each country has. You might visit the CIA's World Factbook Web site (www.cia.gov/cia/publications/factbook) to find this information. Make a continuum of economic systems and place each country in the appropriate position.

Marketing Terms

demand
supply
market demand
market supply
law of demand
law of supply
profit motive
productivity
competition

After studying this chapter,
you will be able to

- explain who controls a market economy.
- list the three main market forces.
- describe the effect of price on supply and demand.
- list three factors that cause changes in demand.
- describe the effect of supply and demand on price.
- describe three ways a business can increase profits.
- explain the role of the consumer in determining which products get produced.

In a pure command economy, the government controls the economy. The government tells individuals what and how much to produce, 8-1. In contrast, in a pure market economy, each individual makes his or her own economic decisions. In a market economy, no one tells the farmer what or how much to grow, 8-2. No one tells the factory owner how many computers to make. Each farmer and factory owner decides himself or herself what and how much to produce.

In a pure command economy, the government sets the prices and decides who gets the products. In a pure market economy, individuals decide what prices to charge for their products and where to sell them. Individuals decide what to buy based on how much money they have.

In a pure command economy, the government attempts to coordinate everything in the economy. However, the

**8-1**

In a command economy, the government tells individuals what to grow.

major command economies of the Former Soviet Union and the People's Republic of China discovered that such coordination was very difficult, and they often were not successful. The result was severe shortages of consumer goods such as food, clothing, and housing.

In contrast, in a pure market economy, there are rarely shortages of essential consumer goods. In fact, most goods and services are delivered where they are needed and when they are needed. The goods and services are offered at prices that consumers can afford. In a market economy, there is no one person who controls the economy. In a market economy, the government is not in charge of the economy. Then how does everything get coordinated?

Adam Smith, the Scottish philosopher, was the first person to realize how a market economy works. His groundbreaking work, *The Wealth of Nations*, published in 1776, provides our basic understanding. He realized that there are forces in a market economy that coordinate its activities. He described these market forces as "an invisible hand" that ensures that the right products are available at the right times, in the right quantities, and at the right prices.

**8-2**

In a market economy, the individual decides what and how much to produce.

Market Forces at Work

Here is a simplified example of how market forces work. Imagine the market for basketballs and soccer balls. For this example, all the balls are of the same good quality. In this market, the supply of basketballs equals the supply of soccer balls. In this market, the price of the balls starts out the same.

Suppose basketball becomes more popular than soccer. The demand for basketballs rises, 8-3. Customers buy the basketballs, and the supply of basketballs goes down. Customers compete for the remaining basketballs. As the demand rises and the supply falls, the price of the basketballs goes up. The customers who can afford the higher prices get the basketballs. The basketball sellers are making lots of money.

Meanwhile, no one is buying soccer balls. The demand for soccer balls is low, but the supply is high. In order to try to get the soccer balls to sell, the soccer ball sellers lower the price. Because of the lower prices, more soccer balls sell. However, the long-term demand for soccer balls does not



8-3

As the demand for basketballs rises, more customers buy basketballs; and the supply falls.

increase because the people who bought the soccer balls would really rather be playing basketball. The soccer ball sellers are losing money because they had to lower prices to sell the soccer balls.

Meanwhile, more and more people are buying basketballs. The profit in the basketball business goes up. The basketball sellers hire more people to make basketballs. New companies enter the basketball market. Now there are more companies making basketballs. These companies compete with each other for customers. They look for ways to better meet customers' needs. They also start researching faster and better ways to make the basketballs. The quality of basketballs improves.

Meanwhile, as the price of soccer balls fall, the profit in the soccer ball business falls. Fewer and fewer soccer balls are sold. Soccer ball businesses let workers go and close factories. Fewer soccer balls are produced. The people who produced soccer balls start working in the basketball business.

The net result is what the customers wanted: more basketballs and fewer soccer balls. In turn, if the customers change their minds, and soccer becomes more popular

than basketball, the same process will work again. The result will be more soccer balls.

There are many economic processes going on in the preceding example. The following sections will examine the three main market forces in more detail: (1) supply and demand, (2) profit, and (3) competition.



Reality Check

Identify places in the example where the forces of supply and demand, profit, and competition are at work.

Supply and Demand

Demand is the quantity of a specific product that a buyer is able and willing to buy at a certain price, usually at a particular time and place. (Remember that *price* is the amount of money exchanged for a product.)

Supply is the quantity of a specific product that the supplier is willing to supply at a certain price.

There are two ways to think about supply and demand: individual and market. Individual demand is the quantity of a product demanded by an individual consumer. Individual supply is the quantity of a product supplied by an individual supplier. However, when we talk about supply and demand as forces in the economy, we are referring to market supply and market demand. **Market demand** is the sum of all the individual demands for a specific product, for a specific time period. **Market supply** is the sum of all the individual suppliers' supply of a specific product, for a specific time period, 8-4. From this point on, when we refer to supply and demand, we are referring to market supply and market demand.



Photo courtesy of IGA, Inc.

8-4

Market supply is the sum of all individual suppliers' supply of a specific product, not the supply provided by just one supplier.

Effect of Price on Supply and Demand

The laws of supply and demand tell us what happens to supply and to demand as prices change. These laws apply to situations where other factors do not change. Other factors include marketing campaigns, the economic situation, and social trends. When these other factors do not change, we call it a constant environment.

In a constant environment, the **law of demand** says that when prices fall, demand will rise. That is, consumers will buy more when prices are low. Conversely, when prices rise, demand will fall. That is, consumers will buy less when prices are high.

In a constant environment, the **law of supply** says that when prices are high, supply will rise. That is, suppliers are willing to supply more when the price of the product is high. Conversely, when prices fall, supply will fall. That is, suppliers are willing to supply less when prices are low, 8-5.

Here is how the laws of supply and demand worked in our basketball example. The soccer ball suppliers wanted to cause a

Effect of Price on Supply and Demand

Price Level	Effect on Demand	Effect on Supply
High	Falls	Rises
Low	Rises	Falls

8-5

The price level of a product will affect the demand and supply.

rise in demand. Therefore, they lowered the price of the soccer balls. When they lowered the price of the soccer balls, more consumers bought them. Also, when the prices of basketballs rose, it encouraged the suppliers to supply more basketballs.



Reality Check

Has a drop in price ever changed your individual demand for a product? Give an example.

Changes in Demand

The environment is rarely constant. Changes in marketing campaigns, the economic situation, and social trends cause changes in demand, 8-6. In fact, one of the major roles of marketing is to increase demand. Marketing increases demand through promotion. For example, advertisements for a certain toy during the December gift-giving season can result in increased demand for the toy.

The condition of the economy can also increase or decrease demand. When the economy is doing well, consumers have plenty of money. As a result, the demand for many products increases when the economy is doing well. When the economy is doing poorly, consumers have less money.



8-6

Marketing, changes in the economy, and social trends can all change the demand for goods and services.

As a result, the demand for many products decreases when the economy is doing poorly.

Changes in society also affect demand. One of the major changes during the twentieth century was an increase in the number of women working outside the home. This change in society resulted in an increased demand for many items, for example, convenience foods. Many women who work outside the home have less time and desire to prepare meals, so the demand for convenience foods rose.

In our basketball example, a social trend caused the increase in demand for basketballs. For a variety of social reasons,

including the phenomenal success of Michael Jordan in the 1990s, basketball became more popular than soccer.

The Effect of Supply and Demand on Price

Price is one of the Four Ps. Many factors affect how marketers set price. One of the main factors that affect price is the interaction of supply and demand. When demand is low, but supply is high, marketers lower prices. When marketers lower price, demand usually increases and more of the product is sold.

When demand is high, but supply is low, marketers can raise prices. The buyers will compete for the few products and are willing to pay higher prices, 8-7.

In our basketball example, the basketball sellers raised prices when demand was high, but supply was low. Conversely, when the soccer ball sellers had large supplies of soccer balls and low demand, they lowered the price of the soccer balls.



Reality Check

Think of a situation in which high demand and low supply resulted in higher prices. Describe the situation.

Effect of Supply and Demand on Price

Level of Demand	Level of Supply	Effect on Price
High	Low	Rises
High	High	No effect
Low	High	Falls
Low	Low	No effect

8-7

The level of supply and the level of demand will affect prices.

Profit

Profit is another powerful force in a market economy. *Profit* is the money left over after all business expenses and costs are paid.

Profit = Sales – Expenses and Costs

Suppose you own a basketball factory. Last year, your sales totaled \$380,000. In order to make those sales, you had expenses and costs of \$345,000. Your expenses and costs included rent, utilities, raw materials, machinery, machinery maintenance, salaries, and marketing. Your profit is \$35,000, 8-8.

In a pure market economy, business owners keep the profits. In a pure command economy, the national government gets the profits. In a mixed economy, business owners keep most of the profits. Business owners pay a portion of their profits to the government in the form of taxes.

The **profit motive** is the drive to earn more profit. In a command economy, the profit motive does not operate because the citizens do not get to keep the profits. In a market or mixed economy, the chance to keep profits motivates people to start new businesses, expand existing businesses, and develop ways to increase profits. In

our basketball example, as profits in the basketball business increased, more people entered the basketball business.

Businesses are always looking for ways to increase profits. Three of the main ways to increase profits are to (1) decrease costs or expenses, (2) increase productivity, or (3) increase sales.

Decrease Costs or Expenses

Think about the basketball factory. If costs or expenses could be lowered, profits would increase. On the other hand, if costs or expenses rise, profits decrease. If costs or expenses rise too much, the business might lose money, 8-9.

A business owner looks for ways to decrease costs and expenses by studying what money is spent on in the business. Costs and expenses include rent, raw materials, and machinery maintenance. The business could look for a place where rent is lower, less expensive raw materials, and less expensive ways to maintain machinery.

Increase Productivity

Another way to increase profits is to increase productivity. **Productivity** is the

Calculating Simple Profit

Formula

Profit = Sales – Expenses and Costs

Data

Sales = \$380,000

Expenses and Costs = \$345,000

Profit = \$380,000 – \$345,000

Profit = \$35,000

8-8

Profit is the money left over after all business expenses and costs are paid.

Effect of Costs and Expenses on Profit			
Situation	Sales	– Costs and Expenses	= Profits
Original	\$380,000	– \$345,000	= \$35,000
Expenses down	\$380,000	– \$300,000	= \$80,000
Expenses up	\$380,000	– \$375,000	= \$ 5,000
Expenses up a lot	\$380,000	– \$400,000	= –\$20,000 (loss)

8-9

When expenses go down, profit goes up. When expenses go up, profits go down.

amount of product a worker produces per hour (product/hour). For example, in the basketball factory, a worker might produce ten basketballs per hour. An increase in productivity would occur if a worker could complete twenty basketballs in an hour. Productivity would double. As a result, output doubles. That is, the factory produces twice as many basketballs.

Costs would go up because there would be twice as many raw materials in twenty basketballs; but costs would not double. The company now has twice as many basketballs to sell. Sales go up and profits go up. An increase in productivity can greatly increase profits, 8-10. An increase in productivity means that each product costs less to make. The business could easily lower the prices of the basketballs and still make a good profit.

How can a business increase productivity? There are two main ways: increase efficiency and use new technology. One of the ways to increase efficiency is through specialization. Henry Ford used the assembly line and specialization to increase efficiency in car manufacturing.

The following is a simplified example. Before the assembly line, each worker assembled one car. If there were ten workers, each worker assembled one car in a day. Ten workers produced ten cars. Using the assembly line, each worker would specialize in one-tenth of the car assembly. The ten

workers would each assemble their specialty. Specialization speeds up production and makes it more efficient. Now the ten workers could produce thirty cars in a day.

New technology is another way to increase productivity. Toward the end of the twentieth century, productivity in the United States took a leap forward. The reason was the widespread use of computers and digital technology. This technology enabled workers to perform various jobs much faster than ever before.

Increase Sales

In our basketball example, forces outside the basketball business led to an increase in demand for basketballs. Often, however, the business itself can do a great deal to increase sales. One of the major roles of marketing is to increase sales. Marketing can develop programs to encourage current customers to buy more, 8-11. For example, rewards for frequent purchases encourage more purchases. Marketing can also develop plans to attract new customers. Advertising campaigns are a common way for marketers to attract new customers. Marketing, along with the other business functions, can also decide to find new markets. For example, a business can decide to open stores in another country.

Sample Effect of Productivity on Profit

Situation	Sales	– Expenses	= Profit and Costs
Original	\$380,000	– \$345,000	= \$ 35,000
Productivity and sales double	\$760,000	– \$545,000	= \$215,000

8-10

When productivity goes up, sales and profits go up.



Reality Check

Name a business with which you are familiar. Suggest ways that the business could increase profits.

Competition

Competition is the contest between two or more businesses to get customers. Businesses also compete with each other for the best workers, materials, processes,

**8-11**

One of the major roles of marketing is to increase sales.

location, image, and products. In order for businesses to compete successfully, they work hard to meet customers' needs. They also work hard to improve productivity. The result is better products, better quality, more services, and lower prices. We will learn more about competition in Chapter 19.

In our basketball example, the many basketball suppliers competed with each other for basketball customers. The basketball suppliers worked to improve the quality of the basketballs and to find

better ways to make them so that they could lower prices.

Role of the Consumer

You may have heard these statements: Consumers decide which products are produced. Consumers set the prices of products. There is truth to these statements, but they are not entirely true. An individual consumer does not have any effect on the economy. Consumers affect the economy as a group. Consumers affect the economy through the forces of supply and demand. When a large number of consumers want and buy a product, the demand for the product goes up. When a large number of consumers decide they do not want a product, the demand for the product goes down. Businesses and the economy respond to these large-scale changes in demand.

More accurate statements are the following: Consumers as a group affect which products are produced through what they buy. Consumers as a group affect the prices of products through the aggregate effect of their demand. Consumers "vote" for products with their dollars.

Here is an example. A new restaurant opens in your neighborhood. If a large number of people like the food and go to the restaurant many times, the restaurant will succeed. If very few people like the restaurant, the restaurant will go out of business. In our basketball example, people voted for basketballs over soccer balls by buying more basketballs.



Reality Check

Describe a product that was successful because many consumers bought it. Describe a product that failed because few people bought it.

CHAPTER 8 REVIEW

Remember This

- Market forces control a market economy, not the government or a group of people.
- The three main market forces are (1) supply and demand, (2) profit, and (3) competition.
- Low prices increase demand; high prices reduce demand. Low prices reduce supply; high prices increase supply.
- Marketing campaigns, the economy, and social trends can change demand.
- The interaction of supply and demand affects price. When supply is low, but demand is high, the price rises. When supply is high, but demand is low, the price falls.
- Businesses can increase profits by (1) reducing costs or expenses, (2) increasing productivity, and (3) increasing sales.
- Consumers vote with their dollars to determine which products are produced.

Review Concepts

1. How is a market economy different from a command economy?
2. Who controls a market economy?
3. What are market forces?
4. Who affects the demand for products?
5. Who affects the supply of a product?
6. What is the difference between supply and market supply?
7. State the law of demand.
8. State the law of supply.
9. List three factors that can change demand.
10. How does the condition of the economy affect demand?
11. True or False. Profit is all the money that a business receives.
12. State the equation for determining profit.
13. Imagine that you own a factory. List three ways you could increase profit.
14. Why is competition good for customers?
15. True or False. Consumers set the prices of products.

Think Critically

1. Imagine that you live in a command economy. Describe how your life would be different from your life in a mixed market economy.
2. Why did Adam Smith call the forces in a market economy “an invisible hand”?
3. Describe how market forces control a market economy.
4. Why do both the law of supply and the law of demand include the words “in a constant environment”?
5. Explain the law of demand by giving an example.
6. When prices are high, demand falls. Why?
7. How can marketing affect demand?
8. Name an industry with which you are familiar, such as the soft drink industry, the blue jeans industry, or the video game industry. Name at least three businesses in this industry that are in competition with each other. How does their competition affect you as a customer?

Connect to Business

1. Visit a supermarket during a busy time. Observe the cashiers. How would you measure the productivity of a cashier? How does technology help the cashiers be more productive? Are some cashiers more productive than others? What interferes with a cashier's productivity? What has the store done to help cashiers be more productive?
2. Visit a drugstore or supermarket. Name a good that many people use, such as shampoo, laundry detergent, or carbonated beverages. Write down the names of the brands. For each brand, list the products offered and the varieties, such as size. Design a form to record this information. How many brands are there? For each brand, how many varieties of products are there? Why are there so many choices? Would there be as many choices in a command economy?
3. Technology has changed a great deal in recent years. Interview a person who has been in the workforce, such as a parent or grandparent, neighbor, or teacher. Ask this person how the technology he or she uses at work has changed since he or she first started working.

Explore Careers

1. Read the article "Tomorrow's Jobs" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco.

How does change in the population affect demand for jobs? Give specific examples. This article does not single out marketing-related jobs. However, based on this article, how do you think the demand for jobs in marketing will change? Notice the information on marketing-related jobs, such as retail trade; management, business, and financial occupations; and sales and related occupations.

2. Obtain the "Want Ads" section of a local newspaper. Based on the number of ads, is a particular job or job type in great demand?

Connect to the Internet

1. Do you comparison shop on the Internet? Choose a product that you would like to buy. Find two Web sites that offer that product. Compare and contrast the product on the two Web sites. Which Web site would you use to purchase the item? Why?
2. Overstock or surplus goods are goods that a supplier has too much of. Go to a Web site that sells overstock or surplus, such as www.overstock.com. Find out how the Web site gets its goods to sell. How does the Web site price these goods? What is the advantage to the Web site to obtain and resell overstock? What is the advantage to the customer? What advantage is there to the supplier?

Marketing Terms

economic indicator
gross domestic product (GDP)
rate of change
growth rate of the economy
standard of living
per capita GDP
consumer price index (CPI)
index
inflation
inflation rate
purchasing power
employed
unemployed
unemployment rate
stock market

After studying this chapter, you will be able to

- describe signs of economic growth and slowdown you might see in your neighborhood.
- explain the purpose of economic indicators.
- list five major economic indicators.
- explain why the U.S. economy is called a consumer economy.
- explain why marketers want to know the rate of change of GDP.
- describe the effect of inflation on purchasing power.
- explain how the stock market can be used as an economic indicator.
- give the six keys to the status of the economy.

In general, the economy is doing well if it is stable or growing. If the economy is slowing down, economic trouble may be ahead.

Can you tell how the economy in your neighborhood is doing? Next time you walk or ride through your neighborhood, look for signs of economic growth or economic slowdown. Are new houses and businesses being built? New construction is a sign of economic growth, 9-1. Are there a large number of vacant stores or “out of business” signs? Going out of business is a sign of economic slowdown. Do you see many cars with new-car temporary license plates? Purchase of new cars is a sign of economic



9-1

How is the economy in your neighborhood? New construction is a sign of economic growth.

growth. Are many people you know out of work? A rise in unemployment is a sign of economic slowdown. Have the media been reporting a rise or fall in the stock market? A rise in the stock market is generally a good sign. A fall in the stock market usually indicates economic slowdown.

Imagine that you are a business owner. You are thinking of launching a new product. When would your new product have the best chance for success? Would your new product do better when the economy is growing, or when the economy is slowing down? Many products do better when the economy is stable or growing. Some products, such as generic brand groceries (which are usually lower priced), do better in a slowing economy.

People in business and marketing want to know how the economy is doing so that they can make good business and marketing decisions. The government wants to know how the economy is doing so that it can take steps to help the economy stay healthy and grow. You will learn more about the role of government in Chapter 11.

Economic Indicators

Economists have developed ways to measure how the economy is doing. A measurement of the economy is called an **economic indicator**. An *indicator* is a number or symbol that tells you about the status of something. For example, temperature is an indicator of the amount of heat. Temperature is measured in degrees Fahrenheit (or Celsius). A body temperature of 98.6°F (36.9°C) indicates that a person has a normal temperature. A body temperature of 102°F (38.9°C) indicates that a person is ill and needs medical attention.

Degrees Fahrenheit (or Celsius) are the units used to measure temperature. Dollars are the units used to measure the value of products (goods, services, and ideas) produced by the economy in the United States. Many economic indicators are also measured in dollars. Other economic indicators show percent change over time.

Economic indicators work in a similar way to temperature. When the economic indicators are normal, the economy is doing well. If the indicators are too high or too low, the economy may be heading for trouble.

There are many economic indicators. The following sections will discuss five major economic indicators: (1) gross domestic product (GDP), (2) per capita GDP (standard of living), (3) consumer price index (CPI), (4) inflation, and (5) unemployment rates. Figure 9-2 shows an overview of these five economic indicators. The stock market will also be discussed as an economic indicator.

Economic Indicators Overview

Name	Short or Alternate Name	Definition	Value (2003)
Gross Domestic Product	GDP	Output of the economy; dollar value of all final products produced in a country during a specific time period	\$11 trillion
Standard of Living	Per capita GDP	Amount of GDP for each person in the country (includes children and retirees); GDP divided by population	\$37,800
Consumer Price Index	CPI	Level of prices; the average change in consumer prices over time	184
Inflation Rate	Inflation	How much prices are rising	2.3%
Unemployment Rate	Unemployment	Percent of the labor force that does not have a job	6.0%

Sources: www.bls.gov, www.bea.doc.gov; current dollars

The values of these economic indicators are used to determine how the economy is doing.



Reality Check

Take a mental walk through your neighborhood. Describe any signs you see of economic slowdown or economic growth. How is your neighborhood doing economically?

Gross Domestic Product (GDP)

Imagine looking at the United States from a satellite. You count every final product made in the United States in a year. Then you add up the dollar value (prices) of all these products. When you are done, the final number you have is the gross domestic product (GDP) for the United States for that year. In 2003 the GDP for the United States was about \$11 trillion dollars, 9-3. How much is 11 trillion? It is an 11 with 12 additional zeros after it: 11,000,000,000,000.



9-3

GDP is the value of all final products made in the United States during a specific time period. For 2003, the GDP was about \$11 trillion.

GDP stands for gross domestic product. *Gross* means everything. *Domestic* means within the borders of the country. *Product*

means final goods, services, and ideas produced in the country. **Gross domestic product (GDP)** is the total value of all final products produced in a country during a specific time period. GDP is also called *economic output*. GDP is measured in dollars. In the United States, the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce (www.bea.doc.gov) keeps track of GDP.

When GDP goes up, the economy is growing; and that is usually a good sign. When GDP goes down, the economy is slowing; and that is usually a bad sign.



Reality Check

What do you think might be happening in a country where the GDP is going down?

GDP as Money Spent

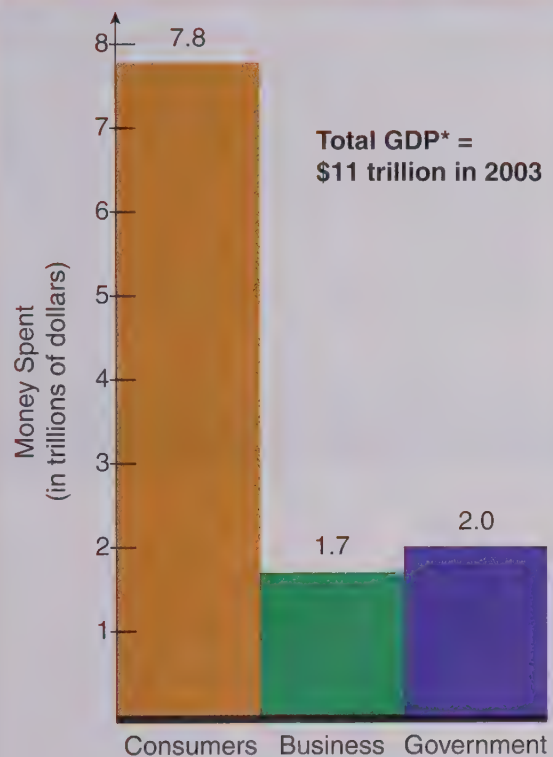
There is another way to look at GDP. GDP is also the total amount of money that the economy spends to buy final products (goods, services, ideas). The major spenders in the U.S. economy are consumers, business, and government. Each of these spenders can be visualized as a stream that contributes to the river of GDP.

The consumer stream includes everything a consumer would buy for personal use, such as food, clothing, cars, haircuts, medical care, concert tickets, and music lessons. The business stream includes all purchases a business makes for capital goods and construction, for example computers, bulldozers, and warehouses. This stream also includes consumer purchases of homes. (Economists call the business stream “investment,” which is why consumer homes are included here.) The government stream includes spending by national, state, and local governments. It includes goods and services and capital goods, for example,

national defense, food for school lunch programs, police protection, and roads, 9-4.

Notice that the biggest stream is consumer purchases. Consumer purchases make up over 2/3 (67%) of U.S. GDP. Because such a large percentage of U.S. GDP comes from consumer purchases, the U.S. economy is often called a *consumer economy*. Consumers (as a group) have power in the U.S. economy because of the large amounts of money they spend. If consumers buy a lot, the economy grows. If consumers stop

Contributors to GDP



* If you add the three quantities, you get \$11.5 trillion. When economists calculate GDP, they include a quantity called “net exports.” That amount was – \$0.5 trillion in 2003.

Source: www.bea.doc.gov

9-4

The major spenders in the U.S. economy are consumers, business, and government. Each of these spenders contributes to GDP.

buying, the economy slows down. Marketers try to influence consumers to buy more products.



Reality Check

Why might consumers stop spending money?

Growth Rate of the Economy

Knowing the GDP for one point in time is interesting. However, marketers and economists are more interested in changes in GDP over time. Changes in GDP over time tell you how the economy is doing, 9-5. If GDP goes up, the economy is growing. If GDP is unchanged, the economy is stable. If GDP falls, the economy is slowing down. Following changes in GDP over time also helps you to predict how the economy will do in the future. Economic predictions are not always accurate. However, marketers use them to make decisions about the Four Ps: product, place, price, and promotion.



Source: www.bea.doc.gov; current dollars

9-5

Marketers and economists are interested in the change in GDP over time. This graph shows that GDP was rising over this time period.

Just graphing GDP over time usually does not give the kind of information that economists and marketers need. They often want to know how much GDP is changing. To get that information, they calculate the rate of change of GDP over time.

An indicator that tells you how much something changes over time is called a **rate of change**. Rate of change is also called *percent change over time*. The rate of change of GDP for a specific time period is often called the **growth rate of the economy**. GDP is often reported as the percent change in GDP over a specific period of time, for example, a quarter (three months) or a year. The larger the percent, the faster the economy is changing. The formula for growth rate of the economy is

$$\frac{\text{GDP}_{(\text{time } 2)} - \text{GDP}_{(\text{time } 1)}}{\text{GDP}_{(\text{time } 1)}} \times 100 = \text{Growth Rate of the Economy}$$

For example, the GDP for 2003 was \$11.004 trillion. The GDP in 2002 was \$10.487 trillion. How much did the GDP change from 2002 to 2003? The growth rate of the economy from 2002 to 2003 was 4.9%. Figure 9-6 shows the calculation.

The growth rate of the economy is most useful when you compare several time periods. Figure 9-7 shows the growth rate of the economy over the same years as shown in Figure 9-5. Figure 9-5 shows a steady rise in GDP. However, Figure 9-7, which shows the growth rate, shows a slightly different story. Although GDP was rising from 1998 to 2003, the rate of rise was not steady. The drop in rate of change in GDP in 2001 shows a slowing in the economy at that time.



Reality Check

Are there any quantities in your life for which you are more interested in the rate of change, rather than the absolute amount?

Calculating Growth Rate of the Economy

Formula

$$\frac{\text{GDP}_{(\text{time } 2)} - \text{GDP}_{(\text{time } 1)}}{\text{GDP}_{(\text{time } 1)}} \times 100 = \text{Growth Rate of the Economy}$$

Data

Time 1 = 2002

$\text{GDP}_{2002} = \$10.487$ trillion

Time 2 = 2003

$\text{GDP}_{2003} = \$11.004$ trillion

$$\frac{\$11.004 \text{ trillion} - \$10.487 \text{ trillion}}{\$10.487 \text{ trillion}} \times 100 =$$

$$\frac{\$0.517 \text{ trillion}}{\$10.487 \text{ trillion}} \times 100 =$$

$$0.04929 \times 100 = 4.929\% \\ \text{Round to} \\ 4.9\%$$

9-6

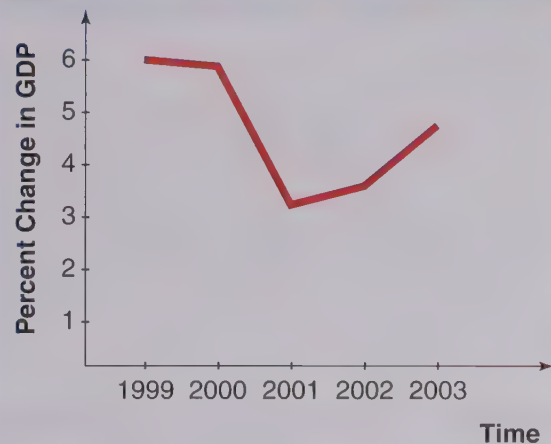
The Bureau of Economic Analysis calculates the growth rate of the economy quarterly.

Standard of Living

Standard of living refers to how much the average person in a country has. Suppose the average person in one country has a home, clothes, and food, but does not have a telephone, television, or car. Suppose the average person in a second country has a home, clothes, and food, but also has a telephone, a television, and a car. The person in the second country has a higher standard of living. One of the goals of a national government is to increase the standard of living of its citizens.

The economic indicator for standard of living is called per capita GDP. *Per capita* comes from the Latin and means *by head*, in other words, *per person*. **Per capita GDP** is a nation's GDP divided by the nation's

Growth Rate of the Economy



Source: www.bea.doc.gov; current dollars

9-7

The growth rate of the economy provides additional information on how the economy is changing. During this time period, GDP was rising, but the rate of rise was not steady.

population. Per capita GDP tells you how much GDP there is for each person in the country. It is a numerical expression of standard of living. The formula for per capita GDP is

$$\frac{\text{GDP}}{\text{Total Population}} = \text{Per Capita GDP}$$

For example, the GDP for the United States in 2003 was about \$11 trillion. The U.S. population in 2003 was about 291 million. Per capita GDP for the United States in 2003 was about \$37,800. Figure 9-8 shows the calculation.

The United States has a very high standard of living. The per capita GDP for countries around the world varies between about \$600 and \$40,000. In other words, in some countries, there is as little as \$600 of GDP per person for one year.

Calculating Per Capita GDP (Standard of Living)

Formula

$$\frac{\text{GDP}}{\text{Total Population}} = \text{Per Capita GDP}$$

Data

U.S. GDP in 2003 = \$11,000,000,000,000

U.S. Population in 2003 = 291,000,000

$$\frac{\$11,000,000,000,000}{291,000,000} = \$37,800 \text{ per person}$$

9-8

Per capita GDP tells you how much of the GDP is available for each person in the country.



Reality Check

How much money do you need each year to survive? To live comfortably? How would you describe your standard of living?

Consumer Price Index (CPI)

In a market economy, the prices of products change. Prices change due to the forces of supply and demand. Other factors in the economy also affect prices. An important way to tell how the economy is doing is to follow the changes in prices. If prices rise only a little, that is good for many parts of the economy. If prices rise a lot, the economy is usually heading for trouble. (In a command economy, the government sets prices.)

There are many ways to measure how much prices rise. The most widely used indicator is the consumer price index (CPI). The **consumer price index (CPI)** measures the average change in prices over

time of goods and services purchased by households.

What Is CPI?

The CPI is an index. An **index** is a number that shows *change* in value, not the actual value itself. That is why the CPI is not expressed in dollars. The CPI shows a comparison between average prices one year and average prices another year. The CPI does not show the prices themselves. The CPI shows the level of prices. A government agency, the U.S. Bureau of Labor Statistics (BLS) calculates and reports the CPI. To determine the CPI, the BLS uses a market basket of over 200 categories of goods and services, such as food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication.

In order for the CPI to be useful, the BLS chooses a specific time period; it then compares all prices to the prices in that period. The time period is called the base. The time period base is 1982 – 1984. The CPI for the base time period is set at 100. Then prices for other time periods are compared with the prices in the base.

For example, the CPI for 2003 was 184. It means that the prices in 2003 were 84 percent higher than the prices for the same goods and services in 1982 – 1984. It also means that something that cost \$100 in 1982 – 1984 would cost \$184 in 2003.

Often, when the CPI is reported, the percent change in CPI between the current month and the previous month is reported. The CPI value is not given. However, the percent change in CPI is actually the inflation rate.

Inflation Rate

Inflation is the term for a general rise in prices throughout the economy. In other words, if the price of only one product rises,

that is not inflation. If the prices of many products rise, that is inflation. The indicator of inflation is the inflation rate. **Inflation rate** is the rate of change in prices. It is calculated by comparing the CPI of one time period with the CPI of the previous time period, and expressing the result as a percent. The formula for inflation rate is

$$\frac{\text{CPI}_{(\text{time } 2)} - \text{CPI}_{(\text{time } 1)}}{\text{CPI}_{(\text{time } 1)}} \times 100 = \text{Inflation Rate}$$

For example, suppose you want to know the inflation rate for 2003. The CPI for 2003 was 184. The CPI for 2002 was 179.9. The inflation rate for 2003 was 2.3 percent. Figure 9-9 shows the calculation.

CPI is usually calculated and reported monthly. Similarly, the inflation rate is usually given comparing the current month's

CPI with the previous month's CPI. Annual CPI and annual inflation rates are calculated by averaging the monthly values. Figure 9-10 shows changes in the inflation rate for 1998 to 2003.

Levels of Inflation

Inflation comes in four levels: low, moderate, severe, and hyperinflation. Severe inflation is also called double-digit inflation. The level of inflation is based on the inflation rate, 9-11.

The major effect of inflation is that it reduces the purchasing power of money. **Purchasing power** is the amount of goods and services you can buy with a specific amount of money. As the CPI shows, a product that cost \$100 in 1982 – 1984, would cost \$184 in 2003. In other words, \$100 bought fewer goods in 2003 than it did in 1984 – 1986.

Another way to look at inflation is that it reduces the value of the dollar. When inflation rises, the value of the dollar falls. That means each dollar can buy fewer goods.

Calculating Inflation Rate

Formula

$$\frac{\text{CPI}_{(\text{time } 2)} - \text{CPI}_{(\text{time } 1)}}{\text{CPI}_{(\text{time } 1)}} \times 100 = \text{Inflation Rate}$$

Data

Time 1 = 2002

CPI₂₀₀₂ = 179.9

Time 2 = 2003

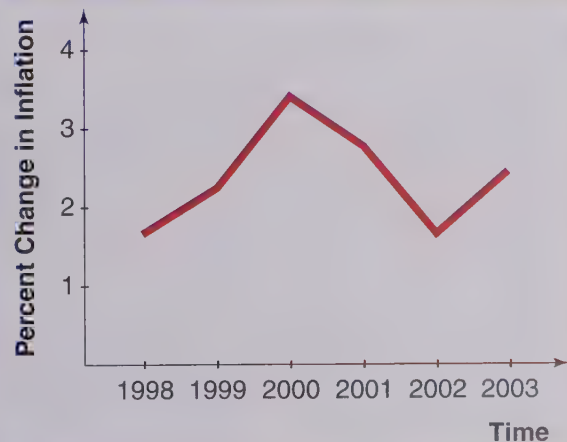
CPI₂₀₀₃ = 184.0

$$\frac{184.0 - 179.9}{179.9} \times 100 =$$

$$\frac{4.1}{179.9} \times 100 =$$

$$0.02279 \times 100 = 2.279\% \\ \text{Round to 2.3\%}$$

Inflation Rate



Source: www.bls.gov/cpi, current dollars

9-10

Inflation rate is the rate of change in the CPI for a specific time period.

The Bureau of Labor Statistics Consumer Price Index Program calculates CPI and inflation rate every month.

Levels of Inflation

Level	Inflation Rate	Effect on Economy
Low	1% to 4%	Good. Economy and prices are stable.
Medium	4% to 9%	Some problems. Prices start rising faster than wages. Purchasing power falls.
Severe (double digit)	10% or higher	Economic problems increase. Purchasing power falls more quickly.
Hyperinflation	Over 1000%	Occurs rarely, but destroys the value of money and the economy. One of the most well-known instances of hyperinflation occurred in Germany after World War I.

9-11

The terms for inflation levels are usually applied to changes that occur month-to-month or year-to-year.

For example, suppose that a certain candy bar cost \$1.00 in 1982. In the year 2003, you could buy only about half a candy bar with the same dollar. Inflation reduces the purchasing power of the dollar.



Reality Check

How could inflation affect your ability to buy products?

Effect of Inflation on Economic Indicators

Because of inflation, economic indicators from different time periods are not exactly comparable. The following oversimplified example will show you why.

GDP is calculated based on prices. To show the effect of inflation on GDP, imagine a country whose only product is bicycles. In 1984, the country makes only one bicycle and its price is \$100. The GDP in 1984 is \$100. Now suppose that it is 2003. The country still makes only one bicycle, but inflation has raised the price to \$184. The GDP in 2003 would be \$184. Has the production of this

imaginary country really changed? No, it has not. The country produced only one bicycle in 1984 and only one in 2003. Its amount of production has not changed. The GDP makes it look like the amount of production has changed because the price has gone up. In order to take away the effect of inflation (that is, rising prices), economists will choose a year and use the prices from that year to calculate the value of goods in all years. For our imaginary country, the economist might take the one bicycle produced in 2003, and use the 1984 price of \$100 to get the GDP for 2003. In our example, the GDP in 1984 and the GDP in 2003 would both be \$100.

When GDP is calculated using the prices of the same year for which it is calculated, it is called *GDP in current dollars* or *nominal GDP*. When GDP is calculated using the prices from one particular year to calculate the prices for all years, it is called *GDP in constant dollars* or *real GDP*. Sometimes the year that is used for the prices is given, and then it is called, for example, *GDP in 2000 dollars*. If you see variations in the values reported for the same indicator, it is likely due to the difference between using current dollars and constant dollars, 9-12.

Nominal vs. Real GDP

	Nominal GDP	Real GDP
	In current dollars, <i>not</i> corrected for inflation	In 2000 dollars, corrected for inflation
Time 1: 2002	\$10.487 trillion	\$10.0748 trillion
Time 2: 2003	\$11.004 trillion	\$10.3813 trillion
Rate of change in GDP between 2002 and 2003	4.9%	3%

Source: www.bea.doc.gov

9-12

Real GDP has been corrected for inflation. It enables you to make more accurate comparisons from year to year.

Unemployment Rate

All the people who are capable of working and want to work are called the *labor force*. The labor force does not include children and retired people. It also does not include people who are capable of working but are not looking for a job.

The labor force is often divided into the civilian labor force and the military labor force. The *civilian labor force* includes everyone in the labor force who is not working for the military. The civilian labor force is divided into two categories: employed and unemployed. The **employed** includes everyone who is working. The **unemployed** includes those who do not have a job but want one and are actively looking for one. The **unemployment rate** is the percent of the labor force that does not have a job but is looking for one. The formula for the unemployment rate is

$$\frac{\text{Number of Unemployed}}{\text{Total Civilian Labor Force}} \times 100 = \text{Unemployment Rate}$$

For example, at the end of 2003, it was 5.7 percent. Figure 9-13 shows the calculation.

Calculating Unemployment Rate

Formula

$$\frac{\text{Number of Unemployed}}{\text{Total Civilian Labor Force}} \times 100 = \text{Unemployment Rate}$$

Data for 2003

Total Civilian Labor Force = 146,808,000

Employed = 138,409,000

Unemployed = 8,399,000

$$\frac{8,399,000}{146,808,000} \times 100 =$$

$$0.05721 \times 100 = 5.721\% \\ \text{Round to 5.7\%}$$

9-13

The Bureau of Labor Statistics calculates unemployment rates monthly.

Because of the dynamic nature of a market economy, there are always some unemployed people. The U.S. economy is usually in good shape when the unemployment rate is five percent or lower. When the unemployment rate climbs, however, it is an indication that the economy is slowing down. Therefore, even if the unemployment

rate has been low, a rise in unemployment means the economy is slowing down and could be headed for trouble.



Reality Check

Why does an increase in unemployment slow down the economy?

The Stock Market as an Indicator

A **stock market** is a marketplace where stocks are bought and sold. Stock represents the right of ownership in a corporation. Stock is divided into shares. Each share represents partial ownership in the company that issued the shares. Shares of stock are sold on a stock market. People who buy shares of stock in a company are called *stockholders* or *shareholders*.

The stock market is often used as an indicator of the health of the economy. However, it is often hard to determine what the stock market indicators are telling you. First, there is not just one stock market, but many stock markets. Second, for each stock market, there may be more than one indicator. Third, on a given day, the indicators may go in all different directions. Fourth, the values usually change from day to day.

The major stock markets in the United States are the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation Stock Market (NASDAQ). Each stock market has its own index. (A stock market indicator is called an index.) In addition, there are two well-known independent stock indexes. The first is the Dow-Jones Industrial Average (DJIA or the Dow), which is based on certain stocks from the New York Stock Exchange. The second is Standard & Poor's 500 (S&P 500), which is based on 500 stocks from a variety of exchanges.

Most newspapers and business Web sites quote the Dow, S&P 500, NYSE, and NASDAQ. In addition, they may quote local stock indexes and stock exchanges in other countries. The indexes are often shown in arrows, which indicate whether the stock prices have gone up or down, 9-14.

Despite the difficulty in interpreting stock indexes, stock prices are still a useful indicator of the state of the economy. When the economy is doing well, stock prices tend to rise. A stock market with rising prices is called a *bull market*. When the economy is slowing down, stock prices tend to fall. A stock market with falling prices is called a *bear market*. A sudden drop in stock prices is usually a sign of serious economic trouble. Such a drop is called a stock market crash. The most famous stock market crash occurred in 1929 and signaled the start of the Great Depression.

NYSE	NASDAQ	DJIA (Dow)	S&P 500	NIKKEI (Japan)
 2.98 7,603.94	 1.70 2,087.43	 2.44 10,834.88	 0.22 1,210.34	 44.81 11,601.68

9-14

Different stock market indexes may move in different directions on the same day. On February 16, 2005, the American indexes did not move very much, but two moved up and two moved down.

Keys to the Status of the Economy

Understanding the economy and keeping track of it can be a full-time job. In fact, it is the full-time job of many economists, government staff, business people, and marketers. However, if you remember a few key ideas, you will have a good idea of how the economy is doing, 9-15.

- The economy is doing well when the GDP and the stock market are rising, inflation is steady, and unemployment is low.
- When inflation and unemployment are rising and the stock market is falling, the economy is slowing down and may be headed for trouble.

Six Keys to Status of the Economy	
Good Signs	Bad Signs
▲ GDP	▲ CPI
▲ Per capita GDP	▲ Inflation Rate
▲ Stock Market	▲ Unemployment

9-15

When GDP, per capita GDP, and the stock market are up, these are good signs. When CPI, inflation, and unemployment are up, these are bad signs.



Reality Check

How is the economy doing right now?

CHAPTER 9 REVIEW

Remember This

- In your neighborhood, signs of economic growth include new construction and new cars. Signs of economic slowdown include vacant stores, “out of business” signs, and high unemployment.
- Economic indicators tell how an economy is doing.
- Five major economic indicators are gross domestic product (GDP), per capita GDP, consumer price index (CPI), inflation rate, and unemployment rate.
- The U.S. economy is called a consumer economy because over 2/3 of GDP comes from consumer purchases.
- Marketers want to know the rate of change of GDP so they can predict how the economy will do in the future and then make decisions on product, place, price, and promotion.
- Inflation reduces the purchasing power of money.
- Rising GDP, per capita GDP, and stock market are usually good signs. Rising CPI, inflation, and unemployment are usually bad signs.

Review Concepts

1. Imagine that you are walking around your neighborhood. You see many new homes and stores being built. How is the economy probably doing?
2. Imagine that you are walking around your neighborhood. You see many vacant stores and “going out of business” signs. Many people are out of work. How is the economy probably doing?
3. What is the purpose of economic indicators?
4. List the five major economic indicators.
5. What do the letters GDP stand for, and what do the words mean?
6. What is another term for GDP?
7. GDP can be considered as money spent. Name the three streams of GDP.
8. Which of the three streams contributes the largest percentage to GDP? What is that percentage?
9. Why do marketers want to know about GDP?
10. How do you calculate the standard of living for a country?
11. Which economic indicators tell you about inflation?
12. What is the difference between inflation and inflation rate?
13. Describe the effect that inflation has on your purchasing power.
14. What effect does inflation have on economic indicators?
15. What is the effect on the economy of a rising unemployment rate?

Think Critically

1. Why might a country want to know about changes in its GDP?
2. How does your personal spending affect GDP?
3. Make up your own descriptions of three standards of living: low, average, and high.
4. Suppose that you go to buy some gas for your car. You notice that gas prices have jumped by ten cents a gallon. Is this a sign of inflation? Explain your answer.
5. Suppose that you are researching economic indicators. You have two sources for the rate of change of GDP for the specific time period you are researching. However, the two sources give different numbers for the rate of change of GDP. Assume that these are not typographic errors. What is the most likely reason for the difference?
6. The category of unemployed workers includes only those who do not have a job and are actively looking for one. It does not include those who do not have a job but have given up looking for one. Why do you suppose these people are not included? How does this affect the reported unemployment rates?
7. Which economic indicator do you think is the most accurate indicator of the status of the U. S. economy? Give your reasons.

Connect to Business

1. Talk with your employer or the manager of a local business or store department. Ask them whether they think the economy is stable, doing well, or doing poorly. Ask them how the economy affected their sales over the past year.
2. Choose a large corporation that interests you. Get a copy of the most recent annual report. (It may be available on the Internet.) Find the message to investors, also called the chairman's message. Did the business have a good year last year? Is the message optimistic about the future? Does the company have plans for growth? Would you buy stock in this company?

Explore Careers

1. People who buy and sell stocks on a stock market are called stockbrokers or securities and commodities sales agents. Read the articles "Securities, Commodities, and Other Investments" and "Securities, Commodities, and Financial Services Sales Agents" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. How is technology affecting this industry? What does a stockbroker do? How does one get into the career of stockbroker? Would you like this career? Why or why not?

CHAPTER 9 REVIEW

2. Visit the Web site of the American Stock Exchange (www.amex.com). Click on the "At the Amex" link, then the "Careers" link, then the "Job Postings" link. Read through the list of available jobs. Do any of them appeal to you? Choose one of the jobs. Describe the position and its requirements. Explain why you would or would not like that job.
3. People who study the economy are called economists. Use library resources or go to the Web site of a college or university. List the courses an economics major must take. Read the article about economists in the *Occupational Outlook Handbook*. One place where economists work is the Bureau of Economic Analysis, an agency of the U.S. Department of Commerce. Visit its Web site (www.bea.doc.gov) and click on the "Jobs" link. There are usually several economists' jobs open. Read several of the job notices. What do economists for the BEA do?

Connect to the Internet

1. Use the Internet to update the economic indicators in Figure 9-2. How do the current statistics compare with those in the text? How has the economy changed since then?
2. Visit the Web site of the New York Stock Exchange (www.nyse.com). What key information does the home page provide? What information does the Web site provide to help you use the NYSE? Use the Web site to write a report on the history of the NYSE and how the NYSE works.
3. Choose a large corporation in which you would like to own stock. Use the Internet to find out which stock exchange the company's stock is listed on. Find out the current stock price and the stock price a year ago. Do you think this stock would be a good investment? Why?

Market Economy Dynamics

Marketing Terms

expansion
contraction
business cycle
upward spiral
downward spiral
prosperity
recession
depression
recovery

After studying this chapter,
you will be able to

- give an example that shows how a change in one part of the economy can cause a change in another part.
- list the three phases of the business cycle.
- make a graph of a business cycle and label the phases.
- describe economic conditions during each phase of the business cycle.
- describe the level of GDP and unemployment rate during each phase of the cycle.

In 1929, times were good. The stock market was rising. The flappers were dancing. Business seemed to be booming. Then, crash! The stock market fell. Investors lost huge amounts of money. Business activity dropped. Real GDP decreased by over 25 percent. Millions of people lost their jobs. In the United States, the unemployment rate was almost 25 percent. That means that one in every four workers had no job and no income. People could not afford homes, clothing, or food. This period of economic hardship was called the Great Depression. It affected not only the United States, but also almost every nation in the world. The Great Depression started in 1929 and was not over until the 1940s.

The Great Depression put the spotlight on a serious defect of market economies: A market economy tends to rise and fall, like a roller coaster. Periods of economic growth and prosperity are followed by periods of

economic slowdown and hardship, 10-1. A period of economic growth is called **expansion**. A period of economic slowdown is called **contraction**. These alternating periods of expansion and contraction are known as the **business cycle**.



Reality Check

Has a slowdown in the economy ever affected your family or anyone you know? Describe the situation.

Economic Spirals

In biology, you learn that every living thing in an ecosystem is connected to every other living thing. A change in one part of an ecosystem affects the whole ecosystem. An



10-1

During economic slowdowns, people lose their jobs and cannot afford the basics such as food, clothing, and shelter. A period of economic slowdown is called contraction or recession.

economic system is very similar. All the parts of an economy are connected. A change in one part of the economy can affect the whole economy. This economic connectedness is often called a *spiral*. An **upward spiral** is a process that starts moving upward slowly, and then increases its upward movement faster and faster. A **downward spiral** is a process that starts moving downward slowly, and then starts moving faster and faster downward.

When one part of the economy is doing well, it leads other parts of the economy to do well; the economy spirals upward (expansion). When one part of the economy does poorly, it pulls other parts of the economy down; the economy spirals downward (contraction), 10-2.



Reality Check

Do you have any experience with situations that spiral up or spiral down? Give one example.

The Business Cycle

Economic indicators can be used to understand and predict business cycles. You can make graphs using the economic indicators as points. For example, you can graph the percent change in GDP during the twentieth century, 10-3.

The graph looks like a mountain range, with peaks and valleys. The *x*-axis shows the passage of time. The *y*-axis shows percent changes in GDP, that is, how much the GDP changed from the preceding time period. When the line moves up, the economy is expanding and producing more output. When the line moves down, the economy is contracting and producing less output. The graph shows that the U.S. economy expands and contracts over time. Economists study

Example of an Upward Spiral (expansion)	Example of a Downward Spiral (contraction)
10 People are spending more money throughout the economy. They buy new shoes, clothes, houses, computers, and so on. Other businesses start to grow and expand.	11 At a certain point, everyone who wants a new car has bought one. The demand for new cars falls. No one is buying new cars.
9 Since step 1, all the businesses connected to the auto industry have expanded. More people are working, earning money, and spending it.	12 New cars start piling up in the dealerships. Car dealers stop buying new cars from manufacturers. New cars start piling up at the manufacturers' warehouses.
8 Suppliers sell more to the auto industry. The suppliers expand. They hire more workers and more materials. More people have jobs and money.	13 Because new cars are not selling, car dealers and manufacturers earn less money.
7 Auto manufacturers buy more from their suppliers.	14 Because there are so many cars in inventory, the manufacturers stop making new cars. Auto manufacturers now need fewer auto parts, less electricity, and fewer workers.
6 Auto manufacturers hire more workers. More people have jobs and money.	15 Auto manufacturers lay off many workers. These workers now have no jobs and no income.
5 Auto manufacturers expand to meet the demand for more cars. In order to expand, auto manufacturers need more auto parts, more machinery, and more workers.	16 Auto manufacturers demand less of everything from their suppliers.
4 Auto manufacturers earn more money because more cars are selling.	17 Suppliers sell less.
3 Car dealers buy more cars from the auto manufacturers.	18 Auto supply businesses contract (get smaller). They lay off many workers. Some of the auto supply businesses close down completely and go out of business. Now more workers have no jobs and no income.
2 Consumers buy more cars. Dealers earn more money.	19 Since step 11, all the businesses connected to the automobile business have contracted. Many of the workers are now unemployed and have no income. The workers who are still employed are earning less money.
1 A new invention increases productivity in the auto industry. Auto manufacturers and dealers are able to price the cars a little lower.	20 People cut down their spending in all areas of the economy. Other businesses start contracting and some of them close and go out of business. At some point, something will occur that causes consumers to start buying again (the equivalent of step one). The spiral will then go up again.

10-2

An upward spiral pulls many parts of the economy up. A downward spiral pulls many parts of the economy down. Start reading this chart from the bottom left corner, at step 1. Read up and then across and down to step 20.

this pattern, so that they can predict future expansions and contractions.

When economists studied graphs like this, they saw a repeating pattern of highs and lows, expansions and contractions. Based on these graphs, they defined something called the business cycle. As you learned earlier in the chapter, the business cycle consists of alternating periods of economic expansion and contraction. Economists define one business cycle as the time from one peak (high point) on the graph to the next peak.

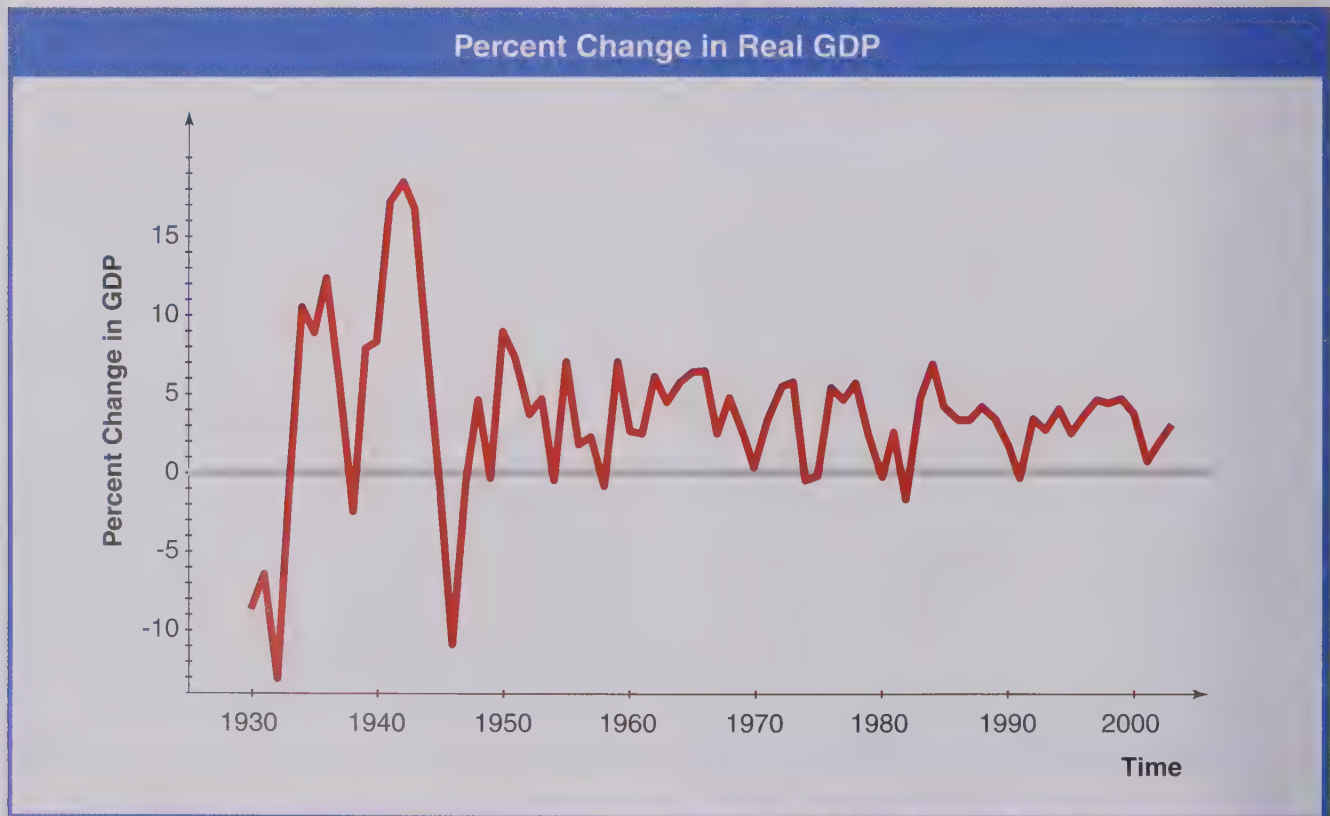
No two business cycles are exactly the same, as you can see in Figure 10-3. Each cycle is a different length. Each cycle has a different high point and low point. During the twentieth century, business cycles averaged four years in length.

Even though each business cycle is unique, every business cycle has the same basic form when graphed. Every business cycle graph has the same four parts: a high point called *peak*, a low point called a *trough*, one period of expansion, and one period of contraction, 10-4.

Many economists and marketers identify three phases in each business cycle: (1) prosperity, (2) recession, and (3) recovery.

Prosperity

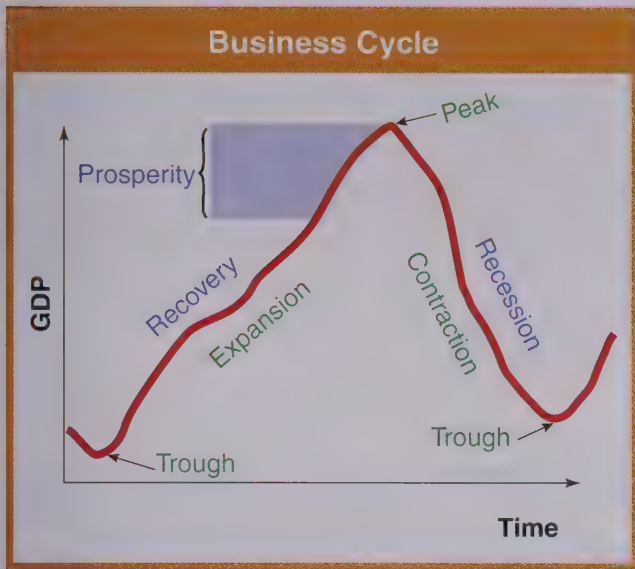
Prosperity is economic good times, when people are prospering (that is, doing well financially). Prosperity occurs around the peak of a business cycle. During a period of prosperity, the economy is expanding. GDP is rising, which means that the economy



Source: www.bea.doc.gov; based on chained 2000 dollars

10-3

Economists study the pattern of change in GDP to predict future economic trends.



10-4

One business cycle consists of the time from one trough to the next. Another set of terms used for business cycle phases is prosperity, recession, and recovery. Prosperity corresponds to the top of the curve, left of each peak. Recession is the same as contraction. Recovery corresponds to expansion.

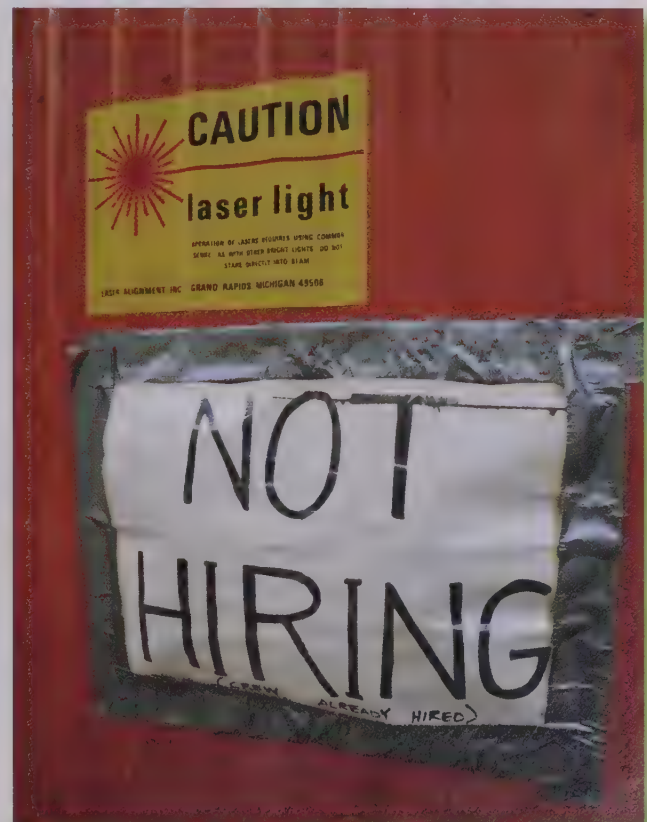
is producing a growing number of goods, services, and ideas. Unemployment is low, which means people are employed and have money to spend. During prosperity, the CPI and inflation usually rise, but in a healthy economy they do not rise very much.

Recession

At some point, economic conditions change. Sometimes the cause is clear, for example, a natural disaster. Other times, the cause is not clear. Whatever the cause, the economy starts slowing down. Consumers buy less, causing retail sales to fall. When retail sales fall, the number of goods in inventory rise. When businesses have high inventories of goods, they do not need to buy or produce more goods. As a result, production slows. GDP falls, which means that the economy is producing fewer goods,

services, and ideas. When production slows, businesses do not need as many workers. Businesses then lay off (fire) workers. When workers are laid off, unemployment rises, 10-5. Unemployed people have less money to spend. When consumers have less money to spend, they buy less. In this way, the economy spirals downward.

Economists call a period of economic contraction a **recession**. On the business cycle graph, the recessions are periods during which the curve is falling. Recessions vary in their length and severity. Some recessions are brief and mild. Others are long and severe. An economic slowdown that is very severe and lasts a long time is called a



10-5

During a recession, few businesses hire new workers. Many businesses lay off workers because they do not have enough work for them to do.

depression. The last depression in the United States was the Great Depression, which began in 1929.

During the twentieth century there were about 20 recessions. A special department of the government, the National Bureau of Economic Research (NBER), studies economic indicators and determines the official start and end of recessions. The NBER defines a *recession* as a period of significant decline in total output, income, employment, and trade, usually lasting from six months to a year, and marked by widespread contractions in many parts of the economy. Many people define a recession as two consecutive quarters (six months) of fall in real GDP.

Reality Check

How could a shortage in the oil supply lead to a recession? (Hint: during an oil shortage, the cost of fuel for industry, automobiles, and heating rises very high.)

Recovery

At some point, the economy starts picking up. **Recovery** is the period after a recession during which the economy is expanding. On the business cycle graph, recovery is the period during which the curve is rising. Consumers start buying more products, 10-6. As customers buy more



10-6

When the recession is over and the economy starts expanding, the recovery begins. Businesses start hiring. More people have jobs. Consumers and businesses start buying more products.

products, inventories fall. As inventories fall, businesses start producing more products. GDP starts to rise, which means that the economy is producing more goods, services, and ideas. Businesses start expanding. The expanding businesses need more workers, so businesses hire more people. Unemployment falls. With more people working, consumers have more money to spend. Consumers buy even more. In this way, the economy spirals upward.



Reality Check

What phase do you think the economy is in right now? Give your reasons.

Business Cycle and Economic Indicators

The U.S. government has over 100 years of data on economic indicators. The government, business people, marketers, and economists study economic indicators to learn which phase of the business cycle the economy is in. For example, if they notice that GDP is falling, a recession may be starting. This knowledge will affect the business and economic decisions that they make. They also study the indicators of the past to help them predict how the economy will do in the future. These predictions are also used to make business and economic decisions. The relationship between indicators and phases of the business cycle is shown in Figure 10-7.

Business Cycle and Economic Indicators

Phase of Business Cycle	GDP	Unemployment Rate	CPI/Inflation	Stock Market
Prosperity (before the peak)	▲	▼	▲	▲
Recession (contraction)	▼	▲	▼	▼
Depression (severe contraction)	▼▼▼	▲▲▲	▼*	▼▼▼
Recovery (expansion)	▲	▼	▲	▲

* Sometimes before and during a depression, inflation is very, very high.

10-7

Each phase of the business cycle has typical levels of economic indicators.

CHAPTER 10 REVIEW

Remember This

- A market economy experiences alternating periods of expansion and contraction known as the business cycle.
- A change in one part of the economy can affect the whole economy.
- Because of this connectedness, an economy can spiral up or down.
- A business cycle has three phases: prosperity, recession, and recovery.
- During prosperity and recovery, GDP rises and unemployment falls. During recession, GDP falls and unemployment rises.
- Marketers use economic indicators to learn which phase of the business cycle the economy is in, to predict how the economy will do in the future, and to make decisions.

Review Concepts

1. What is the difference between expansion and contraction?
2. Give an example of a sign of economic contraction.
3. Give an example of a sign of economic expansion.
4. How can economic indicators be used to understand the business cycle?
5. A graph of a business cycle has four parts. Name them.
6. A business cycle has three phases. Name them.
7. Draw a graph of one business cycle. Label the four parts and the three phases.
8. Suppose GDP is rising and unemployment is low. What phase of the business cycle is the economy probably in?
9. What is the difference between a recession and a depression?
10. Suppose GDP is falling and unemployment is rising. What phase of the business cycle is the economy probably in?

Think Critically

1. Suppose you were writing an economics textbook. How would you use the Great Depression of 1929 to explain business cycles?
2. Develop an example of an upward and downward economic spiral, using an example other than the automobile industry, such as the home construction business.
3. Look at Figures 10-2 and 10-4. Where would the steps in Figure 10-2 fall on Figure 10-4 (the business cycle)?
4. During which phase of the business cycle might people be more likely to save money?
5. Which businesses might continue to do reasonably well during a recession?
6. Imagine that you have a good standard of living and the economy has been doing well. Suddenly, the economy spirals down into a depression. How might an economic depression affect your life?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out how recessions affect this business. How does the manager know that the economy is falling into recession? What does the business do to cope with a recession?
2. When businesses are doing poorly and cannot pay their bills, they often file for bankruptcy. The number of bankruptcies usually rises during recessions. Find out what filing for bankruptcy entails. How does filing for bankruptcy help a business?
3. Search the newspapers or Internet for a business that has filed for bankruptcy. Describe the business, explain why it filed for bankruptcy, and indicate what its future might be.

Explore Careers

1. Bankruptcy lawyers help businesses that file for bankruptcy. Find out what a bankruptcy lawyer does. Visit the career center at the American Bankruptcy Institute's Web site (www.abiworld.org). Browse through the job openings. Read about the companies offering the jobs. Choose an opening that appeals to you. Describe the job and the company. Why does it appeal to you?
2. Business reporters often write about the status of the economy and its effect

on business. Get several issues of your local newspaper or a national business publication, such as *The Wall Street Journal* or *BusinessWeek*. Choose one journalist and find three articles by him or her. Make copies of the articles. Write a summary of each article and list the economic knowledge that the writer needed.

Connect to the Internet

1. When did the most recent recession end? Visit the Web site of the National Bureau of Economic Research (www.nber.org). Find the information on recessions and recoveries, the NBER Business Cycle Dating Committee, and related topics. First, write the NBER's definition of a recession. Then give their date for the end of the most recent recession. Then explain why they chose that date.
2. Use the Internet to find the current values for the New York Stock Exchange (NYSE) and the NASDAQ. Also find the current values for the two main indexes: the Dow and S&P 500. What can you conclude about the economy from these current values? Find the values for all four for the previous three quarters. What do these values tell you about the direction of the economy? Which phase of the business cycle do you think the economy is currently in? Use the Internet to find out what phase economists think the economy is currently in.

Role of Government

Marketing Terms

tax

counterfeiting

counterfeit

laissez-faire

public good

After studying this chapter, you will be able to

- list the seven economic powers that the U.S. Constitution gives the U.S. government.
- list three weaknesses in a market economy.
- explain why the U.S. government has become more involved in economic activities.
- list ten government economic activities.
- explain the actions the government can take to promote economic stability.

In a country that has a command economy, the role of the government is easy to explain. The government owns most of the resources and makes most of the economic decisions.

In a country that has a mixed market economy, the role of government is more complex. This chapter discusses the role of government in the economy of the United States, a country with a mixed market economy, 11-1.



Reality Check

Have you noticed any actions by the national, state, or local government that affect the economy? List as many as you can think of. (Hint: think about taxes and what they are spent on.)



11-1

The United States government plays a role in the U.S. economy.

Constitutional Powers

The colonists won the Revolutionary War against the British Empire in 1783. During the next few years, the new United States of America had serious political and economic difficulties. The Constitutional Convention was organized to solve these problems. In 1787, the United States Constitution was signed. Over the following few years, it was ratified by all the states.

The U.S. Constitution (Article 1, Section 8) gives the U.S. Congress seven important economic powers:

- collect taxes to pay for national defense and general welfare
- borrow money
- regulate commerce with foreign nations and among the states
- coin money and regulate its value
- punish counterfeiting
- establish post offices and roads
- promote science and art by giving authors and inventors exclusive rights to profit from their inventions and writings for a specific period of time (patents and copyrights)

Notice that collecting taxes is one of the economic powers specifically named in the Constitution. A **tax** is money collected by a government from its citizens to pay for activities of the government. Activities of the government include running the government and providing goods and services to the public, such as national defense and roads. There are many kinds of taxes, including sales taxes and income taxes. National and state governments collect income taxes. State governments collect sales taxes.

Another important economic power specified in the Constitution is the power to coin money and regulate its value, 11-2. Only



11-2

The national government is the only organization that can mint coins and print currency.

the national government has this power. The U.S. Mint, established in 1792, is the agency that produces and distributes coins. The Bureau of Engraving and Printing manufactures U.S. currency and postage stamps.

The Constitution also gives the national government the specific power to punish counterfeiting. **Counterfeiting** is the process of making fake money with the intent of using it as real money. **Counterfeit** is fake money.

Counterfeiting is considered a federal felony and is handled by the U.S. Secret Service. The punishment for counterfeiting is severe, up to 15 years in prison. The punishment is severe because counterfeiting can severely damage the economy. In order for an economy to work, people have to trust the money. When there is counterfeit money in circulation, people lose faith in their currency. It can become harder to buy goods and services, and the economy is likely to slow down.



Reality Check

Why do you think the founding fathers included the post office in the Constitution? How does the post office affect the economy?

Laissez-Faire

The foundation of a market economy is free choice by individuals. This foundation implies that government should not interfere with the workings of a market economy. In fact, through most of the nineteenth century (1800s), the U.S. government exerted relatively little influence on the economy. The U.S. government basically exercised only the economic powers listed in the Constitution. The policy of not interfering with the economy is called **laissez-faire**, a French term that means *let them do as they please*.

During the nineteenth century, the U.S. economy grew rapidly and had many successes. However, as time went on, certain problems with a market economy came to light. Large companies were controlling prices and interfering with competition. Child labor was interfering with the health and education of children. Unsafe working conditions and unsafe products were harming public health. The poor and the elderly were unable to afford decent living conditions and health care. Economic depressions caused widespread hardship.

Market Weaknesses

Market economies have provided more goods and services and more wealth than any other economic system. Yet market economies are not perfect. They cannot provide everything. There are several areas in which a pure market economy does not provide what the public needs and wants. Market economies have three major weaknesses: (1) need for quick profits, (2) no safety net in times of trouble, and (3) recessions and depressions.

Quick Profits

A market economy operates on a fairly short timeline. A business will invest in research or a risky project if quick profits are possible. However, if it takes a long time (decades) to earn a profit, most businesses are unwilling to wait. In many cases, businesses are financially unable to wait. If a business cannot break even and then earn profits in a reasonable amount of time, the business is likely to fail. For this reason, businesses usually do not support large, long-term research projects.

An example is basic scientific research, 11-3. For decades, the national government supplied billions of dollars for research in areas such as biophysics and computers.



11-3

Basic scientific research does not lead to quick profits, but could benefit society in the long run.

No private company could have afforded to do such research. Only now are these areas yielding results that can be turned into profitable businesses: biotech businesses and Internet businesses.

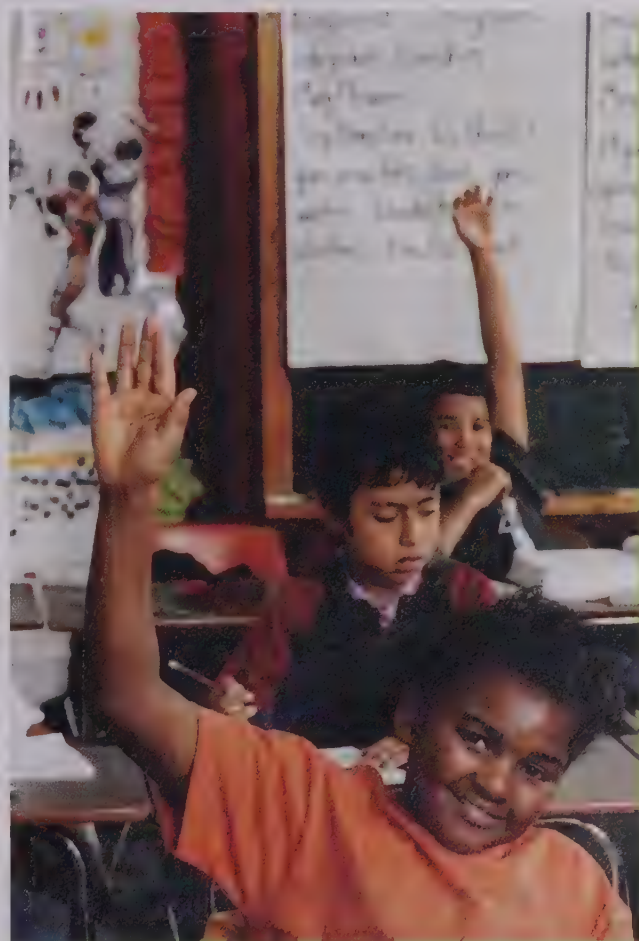
In addition, certain products do not fit the market economy system. For a product to be profitable, you have to be able to collect money for it. It is difficult to charge for each use of certain products. For example, to be economically successful, a nation needs good roads and streets. Think of the street outside your home. Suppose one company built that street. How could that company collect money from each person who uses that street? It might cost more to collect the money than to build the street!

Streets belong to a category of goods called *public goods*. A **public good** consists of a good or service that has the following aspects:

- It benefits everyone in the society.
- It is difficult to monitor the use of the good.
- It is difficult to charge for the use.
- There is usually no way to prevent use of the good whether the user pays for it or not.

Public goods include goods and services such as public roads, public health service, and national defense. This is another situation in which government does a better job than the market. The government is better than the market at providing public goods. The government can collect taxes from citizens and then use that money to provide roads, public health services, national defense, and other public goods.

Another public good is education. A key to economic success in any country is the level of education of its citizens, 11-4. The more educated the citizens, the more successful the country. Education is expensive. If only the rich could afford



11-4

Education is a public good. Educated citizens are necessary for the success of a country.

education, then only a small percent of the population would become educated. Since it is beneficial to the entire country for all its citizens to be educated, the citizens in the United States empower local governments to collect taxes and run a public education system.



Reality Check

List at least three public goods that you used today.

No Safety Net

The market system is impersonal. It works on the basis of money. People who have money get what they want and need. People who do not have money usually do not even get what they need. Such people may include the elderly, the disabled, and victims of natural disasters such as floods or earthquakes. Sometimes people without money may be victims of a slowdown in the economy. People who do not have money may just happen to live in a place with few economic resources.

The American public decided that this situation is not fair. Through their elected representatives, the government established programs that provide a safety net. Programs such as Medicare and Social Security provide help to the poor, elderly, and disabled. Unemployment compensation provides aid to those who have lost their jobs. The Federal Emergency Management Agency provides disaster relief. Foreign aid programs provide help to the needy in foreign countries.



Reality Check

Describe the natural disasters that occur in your area. How do they affect people's lives? How do they affect the economy?

Recessions and Depressions

When the market is left to function on its own, it produces business cycles. The business cycle is the alternating periods of economic growth (expansion—recovery and prosperity) and economic slowdown (contraction—recession or depression). The United States experienced severe depressions in 1837, 1873, 1893, 1907, and 1929. During those times, the government took no action, in part because it did not know what to do and in part because of the laissez-faire approach.

The last depression was the Great Depression of 1929. By 1932, it looked like the economy might never recover. Franklin D. Roosevelt won the presidential election in 1932. His platform was a “New Deal” for America. He pledged that the government would take steps to end the depression.

The Roosevelt administration changed forever the way the U.S. government deals with economic problems. The laissez-faire approach was rejected. The national government took on the responsibility for the economic well-being of the country.

From this time on, the U.S. government took a more active role in preventing depressions. Its efforts have been successful. Although there have been many recessions, there have been no depressions since the Great Depression. Many of the laws, government agencies, and programs started during Roosevelt's administration continue today, 11-5.



Reality Check

How do Roosevelt's programs resemble aspects of a command economy?

Government Activities That Provide a Safety Net

Law, Agency, or Program	Description
Federal Deposit Insurance Corporation (FDIC)	Insures bank deposits
Securities and Exchange Commission (SEC)	Protects people who buy stocks and bonds from unfair and dishonest practices
National Labor Relations Act	Guarantees the right of workers to join unions
Social Security Act, Social Security Administration	Provides money to the elderly, the disabled, and needy children; also provides unemployment compensation to people who lose their jobs

11-5

Many of the activities started by President Roosevelt continue today.

Government Economic Activities

From the beginning, the U. S. government has been involved in the economy. At first, government involvement was minimal. Over the years, the public demanded that the government take more action to keep the economy strong. All government programs were voted for by the people of the United States and are paid for by taxes. The following are ten of the government's economic activities.

- **Legal Framework.** The government establishes the laws that protect individuals, businesses, health, and the environment. Laws are made at all levels of government: national, state, and local. Some of the national laws were discussed in Chapter 5. These laws require fair business practices, workplace and product safety, and pollution control. Figures 5-3, 5-4, and 5-5 list some of these laws. One of the major economic controversies in our country is how much the government should regulate business. National laws also require that writers and inventors have the rights to benefit from their creations and inventions. These are the copyright laws and patent laws.
- **Public Order.** One of the basic requirements for a successful economy is the orderly rule of law. A country requires safe streets and enforcement of contracts (among other things) to carry on economic activity. Once laws are established, they must be enforced. Governments at various levels provide the courts, police system, and national defense to protect individuals, businesses, health, and the environment, 11-6.
- **Currency.** The national government is the only organization empowered to print paper money and mint coins. The national government is also responsible for punishing counterfeiters.
- **Taxes.** Governments at all levels collect taxes to provide the funds to run the government and provide public goods.
- **Infrastructure.** State and local governments build and maintain streets, roads, highways, bridges, seaports, airports, and sewage and water treatment systems. Money for these projects often comes from the national government. The national government owns and runs the Tennessee Valley Authority, which builds dams and provides electricity. The



11-6

Police and fire protection are provided by your local government.

national government also owns and runs Amtrak, which provides passenger rail service, and the U.S. Postal Service.

- **Public Health, Education, and Social Welfare.** The U.S. Department of Health and Human Services, along with state and local governments, provides public health services, medical research, and financial assistance to those in need. Local governments run elementary and high schools. States run many two- and four-year colleges.
- **Disaster Relief.** The Federal Emergency Management Agency (FEMA) provides aid to individuals and businesses harmed by natural disasters such as floods, earthquakes, and hurricanes, 11-7.



Photo courtesy of FEMA

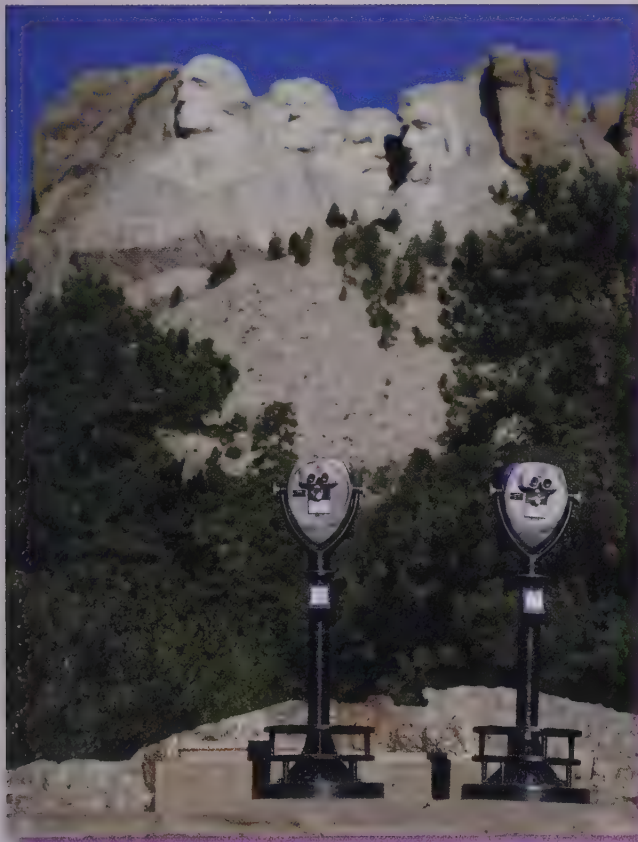
11-7

FEMA provided this rescue team after a severe hurricane in Alabama.

- **Data Collection.** The national government collects a tremendous amount of data, which it makes available to the public. For example, the U.S. Census Bureau collects data about the U.S. population every ten years. These data are used by businesses and marketers throughout the world. The U.S. Bureau of Labor, the U.S. Department of Commerce, and the U.S. Bureau of Economic Analysis are among the national government agencies that collect and analyze economic information. This information is used by economists and businesses to forecast the economy and make economic and business decisions.
- **Consumer of Products.** The largest single consumer of goods and services is government (national, state, and local). Government purchases constitute almost

20 percent of GDP, or over \$2 trillion in 2003. Because government purchases are such a large part of our economy, the government can speed up or slow down the economy by increasing or decreasing its purchases.

- **Producer of Products.** Many of the government's economic activities produce products. Many of them we have mentioned already, such as national defense, currency, roads, disaster relief, and data. In addition, the national government runs four businesses: the U.S. Postal Service, the National Park Service, the Tennessee Valley Authority, and Amtrak, 11-8.



11-8

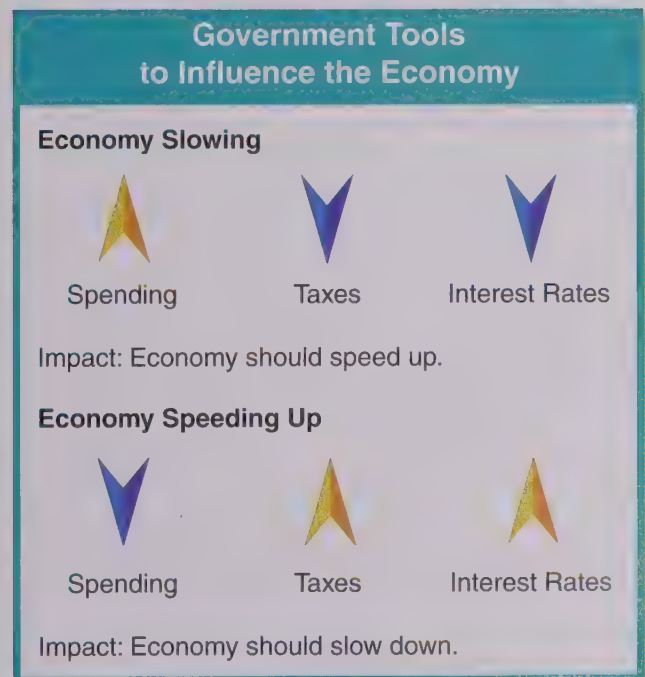
The National Park Service is one of the products of the United States government.

Government and Economic Stability

One of the major outcomes of the Great Depression was the increased involvement of the national government in the economy. The national government has three tools available to influence the economy to be more stable: (1) government spending, (2) taxes, and (3) interest rates, 11-9.

Government Spending

The economy is slowing when GDP falls and unemployment rises. When unemployment rises, people are out of work and do not have incomes. The government can get the economy moving faster by spending more money. The government can spend money through new programs, such as space exploration, and through giving out unemployment benefits.



11-9

The national government can use government spending, taxes, and interest rates to influence the economy.

During the Great Depression, the U.S. government created jobs (that is, purchased labor) to help the economy out of the depression. Some of the government employment programs from that time were the Civilian Conservation Corps (CCC), the Public Works Association (PWA), the Tennessee Valley Authority (TVA), and the Works Progress Administration (WPA).

Taxes

The national government also establishes the level of national taxes. One way to speed up a slowing economy is to get more money into the hands of the people. One way to do this is by lowering taxes. Lowering taxes means that workers have more money in their paychecks. A tax refund also gives consumers more money to spend. As a result, consumers are likely to spend more money, which may result in speeding up the economy.

Interest Rates

Interest rates are influenced by the nation's central bank, the Federal Reserve Bank. This bank is often called "the Fed"

for short. (Notice that all of your paper money says "Federal Reserve Note" at the top.) The level of interest rates has a direct effect on how much money individuals and businesses spend. When interest rates are high, it costs more to borrow money. As a result, it costs more to buy anything that requires a loan, such as a car, a home, or business equipment (capital). High interest rates slow down spending. When interest rates are low, it costs less to borrow money. As a result, it costs less to buy anything that requires a loan. Low interest rates speed up spending.

The Fed carefully monitors economic indicators. When the economy is slowing down, the Fed lowers interest rates. Lower interest rates speed up the economy. When the economy is speeding up and inflation is rising, the Fed raises interest rates. High interest rates slow down the economy.



Reality Check

Have you seen or benefited from any government economic activities? List at least five.

CHAPTER 11 REVIEW

Remember This

- The U.S. Constitution gives the U.S. government seven important economic powers.
- A market economy has three weaknesses: (1) the need for quick profits, (2) no safety net in times of trouble, and (3) recessions and depressions.
- The U.S. government became more involved in the economy after the Great Depression of 1929.
- Government economic activities include (1) legal framework, (2) public order, (3) currency, (4) taxes, (5) infrastructure, (6) public health, education, and social welfare, (7) disaster relief, (8) data collection, (9) consumer of products, and (10) producer of products
- To stabilize the economy, the government can change (1) its spending, (2) taxes, and (3) interest rates.

Review Concepts

1. List the seven economic powers that the U.S. Constitution gives to the U.S. Congress.
2. Why is counterfeiting such a serious crime?
3. Where does the term *laissez-faire* come from and what does it mean?
4. Describe the three weaknesses of a market economy.
5. Give three examples of public goods.
6. Explain what a public good is.
7. List four government programs that provide a safety net to those in need.

8. What impact did the Great Depression of 1929 have on the role of government in the American economy?
9. List ten of the government's economic activities.
10. Suppose the economy is slowing down. What can the government do to speed it up?

Think Critically

1. Describe at least two types of taxes with which you are familiar.
2. Imagine that someone is counterfeiting twenty-dollar bills. Suppose that you pay for something with cash, and you get one of those counterfeit bills with your change. How might this create problems for you? How might this create problems for the economy?
3. In 1932, when F. D. Roosevelt was elected president, Americans demanded that the U.S. government change its role in the economy. Why?
4. Why is public order necessary for a successful economy?
5. Why is government support of education considered an economic activity?
6. Imagine that our country had no programs to help people in need, for example, no unemployment benefits, no disaster relief, and no Social Security. How would this affect our economy? How might it affect your personal life?
7. When the economy is slowing down, why does the government want to do something to speed it up?

CHAPTER 11 REVIEW

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what kinds of taxes the business pays. What other kinds of government regulations affect the business?
2. Visit a local bank. Find out if the deposits are FDIC insured.
3. What is the sales tax rate in your state? (If your state does not collect sales taxes, find out the rate in a neighboring state.)

Explore Careers

1. Visit the Web site of a government agency, such as the Federal Reserve, (www.federalreserve.gov), the U.S. Mint (www.usmint.gov), or the Bureau of Engraving and Printing (www.moneyfactory.com). Click on the "Career Opportunities" or "Careers" link. Select one of the available jobs. Describe the job. Would you like this job? Explain why or why not.
2. Banking is a critical industry for all businesses. Most businesses deposit their revenues in a bank. Read the article "Banking" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What do the NAICS numbers at the upper right stand for? List and describe the types of banks. List the careers (occupations) in banking. Search your local newspaper or an Internet job site, such as

www.bankjobs.com. Find an ad for a banking job that appeals to you. What qualifications would you need for this job? What kinds of tasks would you perform on this job? Would you like this job? Explain why or why not.

3. Governments, including national, state, and local, are among the largest employers in the country. Learn about jobs in government by reading the articles on "Federal Government" and "State and Local governments" in the *Occupational Outlook Handbook*. Make a list of the types of jobs available in the national government. How would you go about finding a national government job? Then make a list of jobs available in state and local governments. How would you go about finding one of these jobs?

Connect to the Internet

1. Visit the Web site of the Federal Deposit Insurance Corporation (www.fdic.gov). What is the main purpose of FDIC? How does FDIC help make the economy stable? What information for consumers is available on this Web site?
2. Visit the Web site of the Federal Reserve (www.federalreserve.gov). What are the main duties of the Federal Reserve? When and how was it established? Who is the current chairman of the board of the Federal Reserve? What was the Fed's most recent decision about interest rates (the FOMC statement)? What information for consumers is available at this Web site?

Marketing Terms

international trade
 domestic trade
 developed country
 developing country
 emerging market
 exports
 imports
 balance of payments
 trade surplus
 trade deficit
 currency
 foreign exchange rate
 strong dollar
 weak dollar
 European Union (EU)

After studying this chapter, you will be able to

- explain why countries trade with each other.
- distinguish between imports and exports.
- explain how to calculate the balance of payments.
- describe the impact of national currencies on foreign trade.

Are you involved in international trade? Before you say “no,” take a look at your clothing and other items you have with you. Think about the products you use or foods you eat. You may have clothing made in China, drink coffee grown in Colombia, or use a computer containing memory chips made in Asia.



Reality Check

What products do you own or use that are made in a foreign country?

International Trade

International trade means trade between nations, 12-1. It is also called *world trade* or *foreign trade*. Trade is another term for *exchange*. Trade between nations has been around as long as there have been nations. The opposite of international trade is domestic trade. **Domestic trade** is trade that occurs within the borders of a nation.

There are over 190 countries in the world. A useful way to classify them is based on their level of economic development. There are two levels: developed and developing.

A **developed country** has a strong base of industrial production, good infrastructure, and a high standard of living. Many developed countries have a per capita GDP

of over \$20,000. Developed countries are also referred to as *industrialized countries* and *advanced economies*. Examples include the United States, Japan, and the countries of Western Europe, such as the United Kingdom, France, and Sweden.

A **developing country** has little industry, poor infrastructure, and a low standard of living. Developing countries usually have a per capita GDP below \$9,000. A group of less developed countries have a per capita GDP below \$3,000. At the beginning of the twenty-first century, most of the countries of the Former Soviet Union, Central and Latin America, Africa, and Asia are developing countries. Most developing countries are working to improve their economies. They want to improve their standards of living. International trade can help these economies grow stronger. The developing countries are often good markets in which to start or expand a business. For this reason, a developing country is also called an **emerging market**.



© JNTO

12-1

International trade means trade between nations. This photo shows a commercial area in Japan.



Reality Check

Have you ever been in a developing country? Describe the ways in which it is different from the United States.

Why Trade?

If you want coffee, you are going to have to trade for it, 12-2. Coffee only grows in countries with certain tropical climates. It does not grow in the United States. If you want authentic kente cloth, you will have to trade with Ghana. Ghana is the only place where authentic kente cloth is made. Nations trade with each other for four main reasons:

- **Unequal Distribution of Natural Resources.** Your country has resources that we need.



12-2

Certain products are only available from certain countries. If you want the product, you will have to trade for it.

- **Products Unique to Certain Nations.** Your country is the only one that makes what we want.
- **Lower Prices.** Your products are cheaper.
- **Opportunities for Business Growth.** We want to make money by selling things to you.

Unequal Distribution of Natural Resources

Natural resources are not evenly divided among the nations of the world. As a result, many nations do not have the

natural resources they need. Therefore, they must trade with other nations to get natural resources. For example, Japan does not produce enough wheat to meet its needs. Therefore, it trades with other countries for wheat. The United States does not have enough oil to meet its needs, so it must trade with other countries for oil.

Products Unique to Certain Nations

Many countries produce unique products that do not exist anywhere else. For example, Ireland is known for its exceptional woolens; Holland, for a type of earthenware called Delft; and Guatemala, for its vivid embroidered cloth. One of the major unique products of a country is tourism. For example, people visit the Grand Canyon because it exists in no other place in the world. People visit the Eiffel Tower in Paris because it is unique.

Lower Prices

Different countries have become specialists in different products. Because of this specialization, these countries can make certain products more cheaply than other countries can. Because of the lower price, people often want the cheaper products from the foreign country.

For example, many countries in Asia specialize in manufacturing computer parts. Their parts are often cheaper and of better quality than domestically manufactured parts. A domestic business may decide to buy the cheaper foreign parts.

Sometimes the costs of labor are less in other countries. Currently, labor costs in China are much less than in the United States. For that reason, many manufactured items such as clothing are much cheaper from China, 12-3.



12-3

Some countries make products more cheaply.

Opportunities for Business Growth

Many American companies have met the needs of the U.S. market successfully, and their businesses are doing well. However, they want to grow. The developing countries provide an excellent opportunity for growth. American companies can find growth and profits by expanding into these emerging markets. In addition, because American culture is popular around the world, many developed countries are also eager to buy American products.

For example, Wal-Mart has been a successful American company for many years. It has been publicly traded on the stock market since 1970 and had its first billion dollars in sales in 1979. However, it was looking for ways to grow. In 1991, Wal-Mart opened its first store in Mexico. In 1993, Wal-Mart created its International Division. It now has more than 1,500 units in nine countries. Wal-Mart's International Division has been extremely successful.



Reality Check

Imagine that you were going to expand your business into a foreign country. What kinds of things would you have to consider to make your business successful there?

Exports and Imports

International trade is an exchange between two countries. Products that are sold (go out) to another country are called **exports**. Products that are bought (come in) from another country are called **imports**, 12-4.

Exports earn money for a country (income, money flows in). Imports cost money (outgo, money flows out). The **balance of payments** is the income from exports minus the outgo from imports.

$$\text{Exports} - \text{Imports} = \text{Balance of Payments}$$

More exports than imports result in a positive balance. A positive balance of payments is called a *favorable balance of trade* or a **trade surplus**. More imports than exports result in a negative balance. A negative balance of payments is called an *unfavorable balance of trade* or a **trade deficit**, 12-5. A negative balance of trade means that Americans spent more money on foreign goods and services than the foreign countries spent on U.S. goods and services.

**12-4**

Exports are the products that a country sells to another country. Imports are the products that a country buys from another country. The United States exports computers to Mexico and imports oil. Mexico exports oil and imports computers.

From the end of the twentieth century through the beginning of the twenty-first century, the United States ran a large trade deficit. That is, the United States bought more products from other countries than it sold to foreign countries. For the year 2003, the deficit was \$496 billion, which was about 5% of GDP. There is an ongoing discussion about whether the trade deficit is good or bad for the U.S. economy. Some people think that the trade deficit shows the strength of the U.S. economy. Others think that the trade deficit shows the inability of American goods to compete in the international market. The issues are complex, and there is no final conclusion yet.

Calculating Balance of Payments**Formula**

$$\text{Exports} - \text{Imports} = \text{Balance of Payments}$$

Imaginary Situation 1**Data**

Exports = \$500 billion
Imports = \$300 billion

$$\$500 \text{ billion} - \$300 \text{ billion} = \$200 \text{ billion}$$

(trade surplus)

Imaginary Situation 2**Data**

Exports = \$300 billion
Imports = \$500 billion

$$\$300 \text{ billion} - \$500 \text{ billion} = -\$200 \text{ billion}$$

(trade deficit)

U.S. Situation in 2003**Data**

Exports = \$1.021 trillion
Imports = \$1.517 trillion

$$\$1.021 \text{ trillion} - \$1.517 \text{ trillion} = -\$0.496 \text{ trillion}$$

(trade deficit)

12-5

The balance of payments is a measure of foreign trade.

Foreign Exchange Rates

One of the complicating factors of international trade is foreign currency.

Currency is the money in use in a country. Most countries have currency in the form of paper bills and coins. Most countries have their own currency. Each country has its own basic unit. For example, the basic unit in the United States is the dollar; in Japan, it is the yen. There are over 160 different currencies in the world.

If you take a trip to Japan, you have to change your dollars into yen if you want to buy anything while you are in Japan. When you return to the United States, you must change any yen that you have into dollars because you cannot use yen to buy things in the United States.

Suppose you manufacture computers, and you want to buy components from Japan. The Japanese component manufacturer wants to be paid in yen, as that is the only type of money he or she can use to buy things in Japan. The money you have is in dollars. You will have to convert your dollars into Japanese yen in order to buy the components from Japan.

The cost of one currency in terms of another currency is called the **foreign exchange rate**. The foreign exchange rate is used to convert one currency into another. The exchange rates for currencies change almost daily. To find exchange rates for today, you must consult a daily newspaper or an Internet site that specializes in exchange rates. The exchange rates for the U.S. dollar are expressed in terms of the number of units of the foreign currency that equal one dollar. Figure 12-6 shows examples of exchange rates on January 12, 2005.



Reality Check

Have you ever found foreign currency in your change? Give an example. Have you ever traveled to a foreign country and needed to change your money? Describe your experience.

Strong and Weak Dollar

The changes in exchange rates affect international trade. For example, in June 1995, one U.S. dollar was equal to 85 yen. In June 1998 one U.S. dollar was equal to 140 Japanese yen. In June 1995, because one dollar was worth only 85 yen, the dollar was relatively weak against the Japanese yen. At that time the dollar could buy fewer Japanese products. In June 1998, because one dollar was worth 140 yen, the dollar was relatively strong against the Japanese yen. At that time, the dollar could buy more Japanese products than it could in 1995.

A **strong dollar** is a dollar that is worth relatively more of a certain foreign currency. A strong dollar can buy more foreign goods. When the dollar is strong against a foreign currency, Americans want to buy more of that foreign country's products. A strong dollar encourages imports.

Currency Exchange Rates, January 12, 2005

Name of Currency	Foreign Units per U.S. Dollar	U.S. Dollars per Foreign Unit
British Pound	0.5326	1.8779
Canadian Dollar	1.2182	0.8212
European Union Euro	0.7627	1.3116
Japanese Yen	103.39	0.009677
Mexican Peso	11.245	0.089334

12-6

Currency exchange rates change daily.

A **weak dollar** is a dollar that is worth relatively less of a certain foreign currency. A weak dollar buys fewer foreign goods. When the dollar is weak against a foreign currency, Americans do not want to buy foreign goods. However, when the dollar is weak, the foreign currency can buy more American goods. The foreign country wants to buy more American goods. A weak dollar encourages exports.

The Euro

One exception to each country having its own currency is the European Union. As of 2004, the **European Union (EU)** consists of 25 European countries that have joined together to create a supranational organization that works for peace and prosperity in all the member nations. (More nations may join in the future.) Twelve of those nations have decided to abandon their individual national currencies in favor of a single European currency, called the euro. The countries that

adopted the euro (as of 2004) are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

The reasons these countries decided to adopt the euro are economic. Before the euro, residents or travelers to these countries would have to change their money before doing business in another one of these countries. Having a single currency makes it easier to travel, to compare prices, and to do business among these 12 countries. These countries expect that the one currency will encourage economic growth and improve their competitiveness with other countries.



Reality Check

Imagine what life might be like if each state in the United States had its own currency. Describe the problems that might arise.

Knight Hawk Supply Venturing into the International Market

Knight Hawk Supply is a small business in Hawk Point, Missouri. It is owned by Brenda and Zip Underwood. The business specializes in hydraulic parts, pumps, motors, valves, hydraulic and pneumatic cylinders, and seals. In other words, Knight Hawk Supply sells specialized parts to businesses that make big machines (such as drilling rigs and construction equipment).

Web Site Attracts Foreign Customers

When the Underwoods created a Web site for their business, they started to get hits from businesses in foreign countries. These businesses were interested in buying their products. The Underwoods were stumped. "We did not have a clue as how to actually sell to another country," recalls Brenda Underwood.

Export Assistance

However, the Underwoods did know that the U.S. government encourages exporting and provides a wealth of information and support. They contacted the U.S. Export Assistance Center in St. Louis, which is part of the U.S. Department of Commerce. There are 20 such centers around the country. Their purpose is to help small and medium-sized businesses sell products internationally. With the help of the Export Assistance Center, the Underwoods completed their first international sale to Canada. Recently, they completed a large sale to a buyer in Peru.

Benefits and Drawbacks

According to Zip, the benefits of international trade include new customers



and increased sales. However, there are some drawbacks. Some foreign companies call for price quotes and availability of products; they then wait two months to call back to order the parts. These companies often do not understand that the price and quantity that was available two months ago may not be available today.

Another concern for a small company like Knight Hawk Supply is receiving payment from a foreign company. Zip explained that Knight Hawk Supply has created a policy that requires customers provide a credit card number for payment before products are shipped. The credit card is charged before the actual parts are shipped. They once had a customer in Nigeria who gave an invalid card number, and they did not realize it until after the parts had shipped. It would have cost thousands of dollars to go after the company for the \$500 payment, so they wrote it off to a lesson learned.

Despite the challenges, the Underwoods have benefited from their foreign sales. They continue to look to international business as a way to increase sales and profitability. Since their first sale to a Canadian company, they have expanded their trade greatly. They now deal directly with companies in ten countries and indirectly with another four companies through exporters in Florida and California.

CHAPTER 12 REVIEW

Remember This

- Countries trade with each other for four reasons: (1) unequal distribution of natural resources, (2) unique products, (3) lower prices, and (4) opportunity for business growth.
- Imports come into your country from another country; exports go out from your country to another country.
- Exports minus Imports equals the Balance of Payments.
- International trade is complicated by the fact the most nations have their own currencies.

Review Concepts

1. What is the difference between international trade and domestic trade?
2. In what ways are developing nations different from developed nations?
3. Give three examples of developed countries.
4. Why are developing nations considered to be emerging markets?
5. Give four reasons why a country might want to trade with another country.
6. Give an example that illustrates one of the reasons why countries trade with other countries.
7. What is the difference between an export and an import?
8. How would you calculate whether a country has a trade deficit or a trade surplus?
9. Name one of the major complicating factors in foreign trade.
10. Name the currency in use by 12 of the European Union nations.

Think Critically

1. Suppose that you are the president of a fast-food restaurant chain. Why might you want to open new restaurants in a developing country?
2. How does international trade help you?
3. Suppose a country has total exports of \$27 billion. Suppose it has total imports of \$32 billion. What is the balance of payments for this country? Does the country have a trade surplus or deficit?
4. Suppose a country has a trade deficit, and it decides that the deficit is a bad thing. What could the country do to change the deficit into a surplus?
5. Does tourism add to a country's imports or exports? Explain your answer.
6. Why did 12 of the European Union countries decide to abandon their national currencies and use one currency for all 12 nations?

Connect to Business

1. Many foreign countries want to increase their trade with the United States. Many of these countries have embassies here. General information on embassies and a list of embassies can be found at the Web site www.embassy.org. Choose a country that has an embassy in the United States

CHAPTER 12 REVIEW

and an embassy Web site. Visit that embassy Web site. What is that country doing to increase their trade with the United States?

- Suppose you needed to exchange your money for foreign currency. Find the closest bank that would do this for you. For which countries can this bank provide currency? What do you have to do to change the money? How does this bank determine the exchange rate you will get for your money?

Explore Careers

- Would you like to travel to foreign countries to sell products? Use library resources or the Internet to find advertisements for positions in international sales. To search the Internet, use keywords "jobs in international sales." Choose a job that appeals to you. What are the qualifications for the job? Would you need to speak a foreign language? What kinds of tasks would you perform? Would you like this job? Explain why or why not.
- Would you like to be a travel agent? Learn about a career as a travel agent in the *Occupational Outlook Handbook*,

available in libraries or online at www.bls.gov/oco. Then visit the Web site of the American Society of Travel Agents (www.astanet.com) or another travel professional's association. Describe the ways this Web site could help you become a travel professional. Visit the job postings area. Choose a job that appeals to you. What are the qualifications for the job? Would you need to speak a foreign language? What kinds of tasks would you perform? Would you like this job? Explain why or why not.

Connect to the Internet

- Search the Internet for a Web site that provides current foreign exchange rates. Update the values in Figure 12-6. Is the U.S. dollar stronger or weaker than each of these currencies now?
- Visit the Web site of the European Union (europa.eu.int). Find out how the European Union began. Are there any new members of the EU? Which countries are in line to become members? What are the requirements for a country to become an EU member? Which institution of the EU functions like the Federal Reserve of the United States?

Marketing Terms

embargo
tariff
quota
import license
trade agreement
trade barrier
interdependence
World Trade Organization (WTO)
trading bloc
free trade zone
globalization
global economy
transnational corporation

After studying this chapter,
you will be able to

- explain the role of government in international trade.
- list five ways that a national government can control foreign trade.
- explain the interdependence of nations.
- describe the advantages and disadvantages of international trade.
- describe how the global economy affects marketing planning.

Foreign trade is carried out mostly by private businesses. However, a nation's government controls many aspects of foreign trade. A national government controls foreign trade to protect its citizens from hazardous products, to protect its domestic industries, and to exert political pressure, 13-1.

Government Regulation of Foreign Trade

The U.S. government has many ways to control foreign trade. The most severe method is the embargo. An **embargo** is a government order that prohibits trade. An



Photo by Gerald Nino, courtesy of U.S. Customs & Border Protection, cbp.gov

13-1

New equipment scans trucks for radiological weapons at the port of Newark, New Jersey.

embargo can be used to prohibit the import of a specific product for a specific period of time. It may be used when there is a health danger from imported food. For example, since 1989, the United States has embargoed imports of cattle and beef products from any country that has cattle infected with mad cow disease.

An embargo can also be used to prohibit exports to and imports from a specific country. This kind of embargo harms the targeted country's economy. Such embargoes are used for political reasons and are usually part of a country's foreign policy. For example, the United States imposed a trade embargo against Libya in 1986 because of its support of international terrorism and pursuit of weapons of mass destruction. In 2003 and 2004, Libya took significant steps to eliminate its weapons of mass destruction programs. It also pledged to halt all support for terrorism. In April 2004, the United States lifted much of its economic embargo against Libya.

Exports

Most governments encourage exports. The U.S. Department of Commerce provides information and help to businesses that want to start exporting. Most of this information is available on the Web site www.export.gov. Exporters usually need help to make sure they meet the import requirements of other countries. Exporters also need help to make sure they comply with all trade agreements that the United States has signed with other countries.

Under certain conditions, items for export must be cleared with U.S. Customs and Border Protection (CBP) before exporting. Formal export procedures must be followed if the goods being exported are worth more than \$2,500. Also, cars and goods with potential military applications must be cleared through CBP before they are exported.

Imports

Imports have always been subject to national government control. Governments often use the following methods to control imports: (1) tariff, (2) quota, (3) import license, and (4) health and safety laws.

Tariff

A **tariff** is a tax on an imported product. A tariff is also called *duty*, *customs duty*, or *import duty*. The person who buys the imported product pays the tariff to his or her national government. Tariffs make foreign products more expensive, 13-2.

Tariffs can be used for two reasons: to generate revenue for the national government or to protect domestic industry. Before the United States instituted income taxes, the main source of income for the national government was from tariffs. Now tariffs are used mainly to protect domestic industry.

How a Tariff Works

Domestic Product: \$10	Foreign Product: \$8
	Tariff: \$4
Price: \$10	Price: \$12

13-2

By adding a tariff, the cost of the foreign product becomes higher than the cost of the domestic product. The foreign product now costs the consumer more than the domestic product does.

How do tariffs protect domestic industry? Imagine that you are in a store. You have a choice between two products, for example, cell phones. One is made in the United States. Another is made in a foreign country. Suppose the foreign-made phone is cheaper. Many consumers would buy the cheaper, foreign-made phone. The company that made the U.S. phone would lose business to the foreign company. The U.S. phone company might go out of business. To protect the U.S. phone company, the United States would put a tariff on the foreign-made phone. The tariff makes the price of the foreign-made phone higher. Now when you go to the store, the foreign-made phone is more expensive than the U.S.-made phone. Now most consumers would buy the U.S.-made phone. The foreign company would lose business to the U.S. company. The U.S. company would be successful. In this way, tariffs protect domestic industry.

Quota

A **quota** is a limit on the amount of a specific product that can be brought into a country. Quotas are another way to limit foreign imports and encourage the purchase of domestic products.

Import License

A nation will often require a business that wants to import products to obtain a license. An **import license** is a legal document that allows the importer to import certain items in certain quantities. The quota for a specific product is often stated in the import license. Import licenses help the nation control and monitor imports.

Health and Safety Laws

The government wants to protect the health and safety of its citizens from dangerous products from foreign countries. Therefore, most countries have laws that strictly control or prohibit the import of dangerous products. The United States has laws controlling the importation of hazardous materials, firearms, and drugs. There are also laws prohibiting the importation of plants, animals, and food that may carry pests or diseases. All imported products must also meet the health and safety requirements in the United States. In addition, there are laws prohibiting the importation of endangered species or products made from them.

Enforcement of Trade Laws

In the United States, the U.S. Customs and Border Protection (CBP) is the main government agency that enforces laws concerning imports and exports. The CBP inspects packages and shipments that arrive in the United States from foreign countries. It also checks people who arrive from foreign countries and their luggage. Even an item that you buy on the Internet from a foreign country should be inspected by CBP. As mentioned earlier, certain items for export must also be cleared through the CBP. Figure 13-3 will give you an idea of the extent of the job of the CBP.

Trade Relations

Trade relations between nations can vary from none to completely open. A **trade agreement** is a document that establishes rules for trading between two or more nations. Trade agreements often reduce or remove trade barriers. A **trade barrier** is anything that interferes with trade. The most common trade barriers are established by the nations themselves, for example, tariffs, quotas, licenses, and embargoes.

The advantages of foreign trade include a greater variety of products and cheaper products. The disadvantages of foreign trade include foreign control of needed products, competition with foreign products, and loss of jobs and business to foreign countries. It is also usually more complicated to run a business that conducts foreign trade.

For many years, the disadvantages of foreign trade seemed to outweigh the advantages. Many countries wanted to be self-sufficient, so that in times of war, another country could not cut off needed products such as oil. Countries also wanted to keep out cheaper foreign goods to protect domestic industries.

After the devastation of World War II, many countries began to rethink their attitudes toward foreign trade. People

began to see that foreign trade might be a way to speed up economic recovery after the war. People also thought that increasing trade connections between countries would increase friendly relations, promote peace, and help poorer countries develop economically. A situation in which countries rely on each other for economic goods and services is called **interdependence**.

One of the results of this new thinking was the General Agreement on Tariffs and Trade (GATT), an agency of the United Nations. It was established in 1948. Through GATT, the member countries negotiated major reductions in tariffs and other trade barriers. In 1995, GATT was replaced by the World Trade Organization. The purpose of the **World Trade Organization (WTO)** is to administer WTO trade agreements, provide a forum for trade negotiations, handle trade disputes, and provide technical assistance and training to developing countries. In 2004, the WTO had 147 member countries.

Two more types of trade relations are trading blocs and free trade zones. A **trading bloc** is a group of countries that join together to trade as if they were one country. Part of the purpose of a trading bloc is to gain trading advantages over the countries that are not in the bloc. A trading bloc is usually also a free trade zone. A **free trade zone** is a group of countries that have reduced or eliminated trade barriers among themselves, 13-4. The European Union (EU) is a major trading bloc and free trade zone consisting of 25 European countries (as of 2004). The North American Free Trade Agreement (NAFTA) establishes a free trade zone among the United States, Canada, and Mexico. In 2005, the Free Trade Area of the Americas (FTAA), a free trade zone that will include countries in North, Central, and South America, should be up and running. The Asia-Pacific Economic Cooperation (APEC) is an organization that promotes free trade and economic cooperation among its 21 member countries.

Typical Daily Inspections by U.S. Customs and Border Protection

- Over 1.1 million passengers
- 2,459 aircraft
- 57,000 trucks/containers
- 323,622 vehicles
- 580 vessels

www.cbp.gov

13-3

U.S. Customs and Border Protection is responsible for enforcing import and export laws and protecting the borders.



**North American
Free Trade
Agreement (NAFTA)**
Canada
U. S. A.
Mexico



European Union (EU)
Austria
Belgium
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malta
Netherlands
Poland
Portugal
Slovakia
Slovenia
Spain
Sweden
United Kingdom

**Candidate Countries
in 2005 (EU)**
Bulgaria
Croatia
Romania
Turkey

13-4

Trading blocs and free trade zones are two types of international trade relations.

Globalization

Globalization is a very popular term now, but it is not a new concept. **Globalization** is a process in which the economies of nations become interconnected and interdependent. One could say that globalization began in ancient times with the Babylonians, the Phoenicians, and the Arabs. However, today globalization refers to the increasing interconnectedness of national economies due to huge advances in communication. These advances make it easier and quicker to conduct business across national borders. As a result, nations conduct more international trade. As a result of more international trade, each nation's economy becomes more

interdependent with the economies of its trading partners.

Three aspects of globalization have had a major impact in recent years: global economy, transnational corporations, and global marketplace.

Global Economy

The global economy is the economy of the entire world. The **global economy** consists of all the economic actions of all the countries and all the customers in the world. The global economy acts more like a market economy than like a command economy because no one government or person controls the global economy. The

global economy experiences recessions and depressions, just like a national market economy does. For example, in 1929, the entire world experienced the Great Depression.

Another important aspect of the global economy is that all the national economies in it are linked. In other words, what happens in one nation's economy can and often does affect the economy of other nations. The mechanism is the economic spiral, which was discussed in Chapter 10. For example, imagine Country A and Country B. Suppose there is a recession in Country A. The customers in Country A have less money to spend. As a result, they buy fewer foreign goods from Country B. Country B receives less income from exports. This might lead Country B into a downward spiral and into recession.

In 1997, events showed how interconnected the global economy is. An economic crisis in Thailand spread to all the Southeast Asian emerging markets, including South Korea, Malaysia, and Indonesia, 13-5. From there, the economic crisis spread to Russia, and from there to the countries of Latin America. The economic

crisis reached even the United States, where the stock market fell over 500 points in one day. Luckily for the United States, the U.S. economy was very strong at this time and did not fall into recession. In fact, the strength of the U.S. economy helped the other countries recover from recession. Because the U.S. economy was strong, the United States continued to have a large demand for products from the Southeast Asian countries. The U.S. demand for and purchase of goods from Southeast Asia started an upward spiral and helped those countries recover from recession.

Transnational Corporations

Another modern development in globalization is the transnational corporation. A **transnational corporation** is a corporation that has major offices and manufacturing plants in several countries, annual sales in the billions of dollars, and a large percentage of those sales from foreign countries. A good example of a transnational is the General Motors Corporation (GM). GM was founded in 1908 in Detroit. GM has manufacturing plants in 50 countries, annual sales of over \$185 billion, and more than 25% of those sales are from foreign countries. Figure 13-6 gives information on some of the largest transnational corporations.

Global Marketplace

Clearly the transnational corporations look at the whole world as their marketplace. When they think about developing new products or building new production plants, they consider the entire world. However, many domestic companies, both large and small, are also part of the global marketplace.

Many domestic businesses buy foreign business goods and foreign raw materials. Large domestic companies are looking to expand sales and operations into foreign countries. Even small businesses are entering



13-5

The economies of all countries are connected. An economic crisis in Thailand spread around the world in 1997.

Some Transnational Corporations

Corporation	Home Country	Industry	Total Sales (in millions of dollars)	Foreign Sales (in millions of dollars)	Foreign Sales as % Total Sales
Coca Cola	U.S.	Beverages	19,353	13,089	68
General Motors	U.S.	Motor vehicles	186,763	48,071	26
IBM	U.S.	Computers	81,186	48,427	60
McDonald's	U.S.	Restaurants	15,406	8,951	58
Nestle	Switzerland	Food/beverages	57,508	34,870	60
News Corp	Australia	Media/Publishing	17,421	16,028	92
Nokia	Finland	Machinery/equipment	28,392	28,058	99
Samsung Electronics	South Korea	Electronics	47,655	28,298	59
Sony	Japan	Electronics	61,284	42,858	70
Toyota	Japan	Motor Vehicles	127,113	72,820	57
Wal-Mart	U.S.	Retailing	244,524	40,794	17

Source: UNCTAD, World's 100 top non-financial TNC's, 2002; www.unctad.org

13-6

Transnational corporations have offices and do business in many countries.

the global marketplace with help from the U.S. Department of Commerce. For example, a small software company in Iowa had almost no international sales in 1998. Within two years, the company had sales in over 65 countries and had become a major force in international software sales and development.

Concerns about Globalization

In 1999 the WTO met in Seattle to discuss further progress in globalization. Nearly 500 organizations planned protests. Those protests quickly turned violent and revealed that some people are strongly opposed to globalization. What are their concerns?

People are concerned that globalization will destroy jobs. They are concerned that globalization seems to cause an unequal

distribution of wealth. In other words, the rich seem to be getting richer while the poor are getting poorer. People are concerned that workers in the less developed countries are being overworked and underpaid. People are concerned that corporations in the developing countries ignore environmental protections. They are also concerned that the transnational corporations and the WTO are not democratically elected representatives, yet they are making decisions that affect the entire world.

The opponents of globalization bring up issues that need consideration, and the WTO has attempted to address some of their concerns. However, it is also apparent that the trend to globalization will increase, regardless of the concerns of opponents. A clear indication of this is that while people were protesting in Seattle, delegates from many developing countries were applying for membership in the WTO.

CHAPTER 13 REVIEW

Remember This

- National governments control many aspects of international trade, even in market economies.
- The tools that national governments use to control international trade include (1) embargoes, (2) tariffs, (3) quotas, (4) import licenses, and (5) health and safety laws.
- Many countries are banding together to form free trade zones.
- When nations trade with each other, they become interdependent; and their economies become interconnected.
- The advantages of international trade include a greater variety of products and cheaper products.
- The disadvantages of international trade include foreign control of needed products and competition with foreign businesses. It can also be more complicated to run a business that conducts foreign trade.
- Globalization is a trend that will probably continue.

Review Concepts

1. Why does a government want to control foreign trade?
2. Why does a government use embargoes?
3. Which department of the U.S. government provides help to businesses who want to export products?
4. Why would someone who wants to export goods need help from a government agency?
5. Name two types of goods that must be cleared with CBP before exporting.
6. What is the difference between a quota and a tariff?
7. How can a tariff protect a domestic industry?
8. What are the main responsibilities of the U.S. Customs and Border Protection Agency?
9. List five barriers to trade.
10. List four free trade zones.
11. True or False. Globalization began in ancient times.
12. Name a modern development in globalization.

Think Critically

1. Why would a government want to encourage exports?
2. Imagine that you are a U.S. manufacturer of a new electronic product. A foreign country makes the same product, which is currently selling at a lower price than your product. You cannot lower your price any further. How would you want your government to protect your product against the foreign import?
3. Why is border protection such a huge job?
4. Before World War II, why were many people against foreign trade?
5. How could the increase in foreign trade lead to peace?
6. How can a free trade zone benefit the countries in that zone?
7. How can being part of the global economy help the U.S. economy?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out whether the business is involved with international trade. If yes, find out how the business got started in international trade and what items they sell and where they sell them. If not, find out why not.
2. Research one of the companies listed in your textbook as a transnational corporation. Where are their manufacturing plants? What products do they manufacture and sell? Do they produce different products for different parts of the world? What makes this company successful?

Explore Careers

1. There are a wide variety of jobs related to trade. Visit the home page of the Department of Commerce (www.commerce.gov). Click on the "Jobs" link. Browse through the available jobs. Choose one that appeals to you. Describe the job and its requirements. Explain why you would or would not like this job.
2. Would you like to be involved with protecting our borders? Visit the Web site of the U.S. Immigration and Customs Enforcement (www.ice.gov). Click on the "Careers" link. Read about the different

kinds of jobs you could do. Choose one. Describe the job, its requirements, and why it appeals to you.

3. Are you interested in border protection? Visit the Web site of the U.S. Customs and Border Protection (www.cbp.gov). Click on the "Careers" link. View the videos and read the brochures on border patrol agents and officers. Find the "Jobs" link, click on it, and browse the available jobs. Choose one. Describe the job, its requirements, and why it appeals to you.

Connect to the Internet

1. Imagine that you want to start exporting goods. Visit the Government Export Portal (www.export.gov). Choose a product that you would like to start exporting. Use the Web site to learn what you need to do to start exporting that product. Write an export plan.
2. Visit the Web site for the U.S. Department of Homeland Security (www.dhs.gov) or U.S. Customs and Border Protection (www.cbp.gov). Look through the Web site to find an article that impacts marketing in some way. Read the article, then describe how the information impacts marketing.
3. Locate foreign companies that sell and distribute their products in the United States. Name the companies and their products. Make a poster with the information you find.



Who are your
customers?

- 14** A Diverse Marketplace
- 15** Targeting a Market
- 16** Segmenting a Market
- 17** Understanding Consumer Behavior
- 18** Business Customers
- 19** Competition
- 20** Marketing Research

PART 3

MARKETPLACE

DYNAMICS



A Diverse Marketplace

Marketing Terms

market diversity
culture
multicultural society
ethnic group
social class
demographic changes
stereotype
cultural bias
prejudice
discrimination

After studying this chapter,
you will be able to

- explain the impact of diverse markets.
- describe five factors that contribute to diversity.
- list six major ethnic groups in the United States.
- list four main social classes.
- list three areas of major demographic changes.
- list four areas of major social changes.
- explain the potential problem with stereotyping.

The marketplace has changed radically over the past 50 years. One of the markets in which this change is visible is the market for television programming. In the early 1950s, there were only three commercial networks. The programming on these three stations mostly focused on the lives of white, middle-class Americans. Today there are five major commercial networks. Programming on these stations shows people from a wide variety of ethnic backgrounds. There are also a large number of cable channels. On cable you will find many shows that focus on a specific interest. For example, there are channels that show all news, all sports, all children's programming, all comedy, all music videos, and so on. There are also channels that show programs featuring African Americans and channels that show programs in Spanish, Korean, and other languages.

The market for television programming is now much more diverse than it was in the 1950s. What is market diversity? **Market diversity** is a term used to describe a market made of groups of people with different needs and wants, 14-1. Market diversity creates opportunities in the marketplace. Five factors contribute to diversity in the U.S. market: (1) cultural differences, (2) social classes, (3) demographic changes, (4) social changes, and (5) international trade.

Cultural Differences

Culture consists of ways of acting, thinking, and feeling that are characteristic of a specific group of people. Culture may

include language, food, clothing, religion, history, art, etiquette, and values. A person's culture is one of many characteristics that affect what a person needs, wants, and purchases. For example, the average American would buy a hamburger for a quick meal. The average Hindu would not, because in Hindu culture, people do not eat beef.

Culture is learned behavior. Children learn culture from their family, friends, school, religious institutions, and civic institutions. One of the many things children learn from their families is buying behavior.

The United States is often described as a multicultural society. A **multicultural society** is a society consisting of people from many different cultures. A multicultural society is also called *culturally diverse*.



14-1

Markets are diverse when they consist of groups of people with different wants and needs.

Ethnic Groups

Diverse markets often consist of people from a variety of ethnic groups. An **ethnic group** is a group of people distinguished from other groups based on country of origin, language, and/or racial characteristics. The major ethnic groups in the United States are European American (often called White), African American (often called Black), Hispanic American (often called Latino), Asian American, Native American, and Arab American. Many marketers segment the U.S. market based on these groups. Such segmentation is easy to do because the U.S. Census Bureau collects statistics by racial/ethnic groups.

One thing to know about the various ethnic groups is that they are not homogeneous. (*Homogeneous* means made of only one kind of substance or unit.) Each of the major ethnic groups is composed of people who themselves (or their ancestors) came from a variety of cultures. For example, within the Asian American group, the Chinese culture is very different from the Indian culture. Figure 14-2 shows the

origins of the major ethnic groups in the United States.



Reality Check

To which ethnic group do you belong? How does your being a member of that group affect what you buy? Name a product you purchased recently because of that culture. Name a product that you purchased because it was from another culture.

Characteristics of Ethnic Groups

Ethnic groups vary in many ways. The most obvious are appearance and language. However, there are many other ways ethnic groups differ. These differences occur in food preferences, holidays, communication style, religion, codes of behavior, and values.

Marketers need to know about the characteristics of an ethnic group that they plan to target. However, information on ethnic groups is often inaccurate. Why?

Origins of Major Ethnic Groups in the United States

Ethnic Group	Origin
European American	Immigrants from European countries, such as England, Germany, Ireland, Italy, Poland, and Russia
African American	African people from many different tribes, brought to America during the 1600s to the 1800s
Hispanic American	Immigrants from Central America, Cuba, Mexico, Puerto Rico, and South America
Asian American	Immigrants from Asian countries such as China, India, Japan, Korea, Philippine Islands, and Vietnam
Native American	Original North Americans from hundreds of different tribes, such as Arapaho, Cherokee, Hopi, Navajo, Seminole, Shawnee, Sioux, and Winnebago
Arab American	Immigrants from Arab Middle Eastern countries such as Egypt, Iraq, Lebanon, Saudi Arabia, Syria, and Yemen

Ethnic groups in the United States derive from a variety of places.

First, there is a great deal of variation within each ethnic group. An example of diversity within an ethnic group is the Asian American group. This group consists of more than 20 different ethnic groups. Each group has its own language, food preferences, religion, and values. A generalization about “Asians” probably does not apply to all the groups within the Asian group.

Second, the needs and wants of ethnic groups may change over time, especially the longer they are in the United States. For example, by the third generation after immigration, most Hispanic Americans speak only English. For another example, as members of an ethnic group become wealthier, they become more similar in their purchasing patterns to those of the upper social classes of the main culture.

In addition, when marketers research a market, they summarize their results in a generalization. For example, one marketer says that African Americans are bargain shoppers. This researcher is basing that generalization on a study that showed that 55 percent of African Americans describe themselves as bargain shoppers. However, 45 percent of African Americans do not describe themselves as bargain shoppers. If this marketer uses the generalization that African Americans are bargain shoppers, he must make sure that the African Americans he reaches are indeed the ones who describe themselves as bargain shoppers. His promotions might offend the 45 percent who do not see themselves as bargain shoppers.

The best way for marketers to learn about any group is to read the most recent research, do research of their own, and try out ideas on a sample of people from that group.

Other Types of Cultures

There are many cultural groups that are not based on ethnicity. For example, there is a distinct teenage culture. There is also a

California culture, a Southern culture, and an East Coast culture, 14-3. When you enter the work world, you will notice the corporate culture of the place where you work. Some companies have a corporate culture that requires all employees to wear suits or other formal business attire. Other companies have a corporate culture that allows all employees to wear casual clothing. Employees in the first corporate culture will buy suits and other formal business wear. Employees in the second corporate culture will not buy suits. Instead, they will buy business-casual clothing, such as khaki pants and sweaters.

A person can be a member of more than one culture. For example, a young person can be a member of the teenage culture and the Japanese culture.



Reality Check

Name two cultures that you are part of that are not an ethnic group.



14-3

There are many types of cultures that are not based on ethnicity.

Marketing to Cultural Groups

Marketers are interested in cultural groups because they often have unique needs. If a marketer can learn about those needs and satisfy them, the marketer is likely to have a successful product. For example, in 1987, Hallmark Cards launched a new brand of greeting cards, Mahogany. These greeting cards were designed specifically to appeal to African Americans by depicting African Americans and using African American themes. This brand has been very successful.

For another example, the cultural change to a more casual work environment has led to an increase in demand for business-casual clothing. Over the past five years, the market for khaki pants has doubled because so many businesses have adopted a casual dress code.

Social Classes

Another factor that contributes to market diversity is social class. **Social class** is the ranking of people based on wealth, education, ancestry, and power. It is also sometimes called *socioeconomic class* because the groups are often based on income level. Each society has its own class system. Some societies have a very rigid class system. In these societies, people are born into a certain class, and it is very difficult to move into another class.

The United States is often called a classless society; however, the United States does have social classes. The class system in the United States is not rigid. It is relatively easy to move from one class to another. Through education and personal effort, a person can reach a higher social class. Also, researchers do not always agree on the number and description of the classes.

Despite some disagreement, most researchers and marketers agree that social

class affects buying behavior. People in the same social class tend to have similar values, attitudes, and possessions. Social class can influence how people use credit and spend and save money. Figure 14-4 describes the four major social classes in the United States.



Reality Check

Think of some recent and classic TV shows. In which social class are the main characters? How do you know?

Demographic Changes

Demographics is the science of counting the number of people in various categories and the analysis of that information. A *census* is a count of the people in a country made by the government. In the United States, the U.S. Census Bureau takes a census every ten years. Among other categories, the U.S. Census Bureau counts the number of people in the various ethnic groups, income levels, and age groups.

Demographic changes are changes over time in the number of people in a demographic category. Three areas of recent demographic changes are (1) increase in the number and wealth of people in ethnic groups, (2) increase in number of people over 65, and (3) increase in single-person households.

Ethnic Groups

One area of demographic change is the increase in the percentage of the U.S. population in the various ethnic groups. In 1950, 90 percent of the U.S. population was white. Only ten percent was black. The other ethnic groups were too small to make a significant percentage. By the year 2000, more than 25 percent of the population

Social Classes in the United States

Class	Upper Class	Middle Class	Working Class	Lower Class
Percent of Population	14	32	38	16
Income Level	Very high	High	Medium	Low
Education	Varies	College	High school	High school or less
Occupations	Heads of government and business; professionals such as lawyers and doctors; celebrities	Managers, teachers, small business owners, professionals	Technicians, factory workers, service workers	Unskilled workers, unemployed
Common Labels	Rich	White collar	Blue collar	Poor
Purchasing Patterns	The best, luxuries	Good quality, occasional luxuries	Bargains, do-it-yourself	Necessities, recycle discarded goods

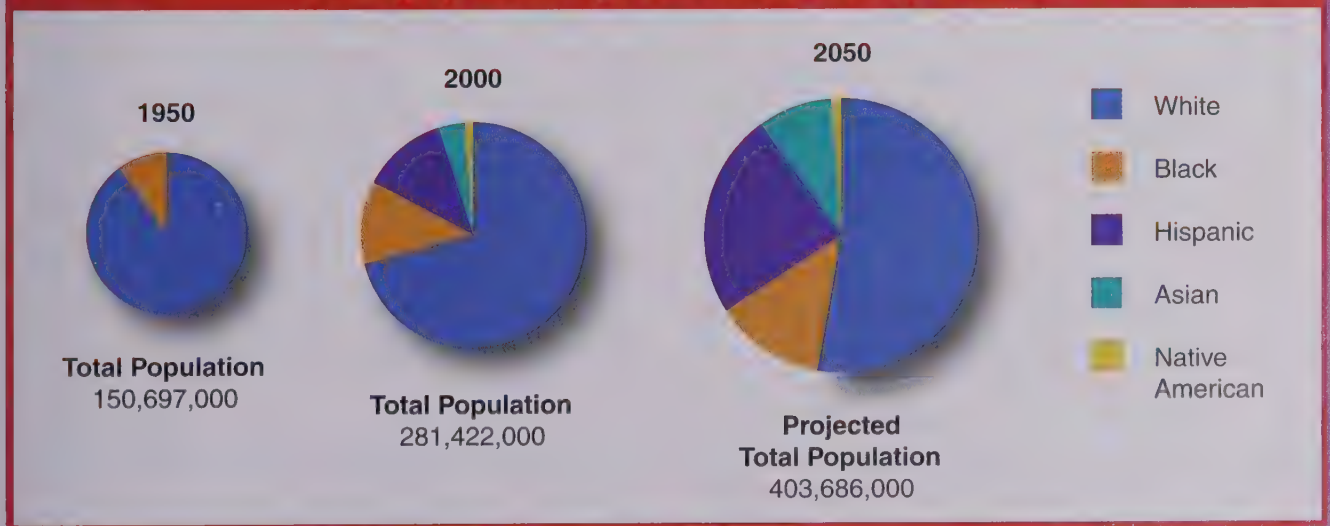
14-4

Although there is disagreement about the exact description of social classes in the United States, most researchers and marketers agree that social class affects buying behavior.

consisted of people with ethnic heritage. The percentage of the ethnic population is expected to continue to grow. The U.S.

Census Bureau predicts that by the year 2050, nearly half the population will be of people with ethnic heritage, 14-5.

Demographic Changes in U.S. Ethnic Population



Source: www.census.gov. 2050 figures are projections.

14-5

The ethnic composition of the United States has changed since 1950.

Along with the increase in numbers, the buying power of the ethnic groups has also increased. For example, since 1990, spending by African American consumers has increased by 54 percent. In 2000, African Americans spent about \$400 billion, Hispanic Americans spent about \$270 billion, and Asian Americans spent about \$220 billion. These groups and their spending power are continuing to grow and represent growth in market opportunities.

Over 65

The number of people over the age of 65 has increased from 12.3 million in 1950 to 35 million in 2000. By the year 2050, the number is expected to increase to 80 million. This demographic change is having a major impact on U.S. markets. Many retired adults have the time and money to spend on travel and other leisure activities. Many are looking for retirement communities. In general, people over 65 need more health care services and medicines. As a result, marketing opportunities have been growing in the areas of health-care services, recreation, tourism, retirement housing, cosmetic products, and cosmetic surgery.

Single-Person Households

Between 1970 and 2000, the percentage of single-person households increased from 17 percent to almost 26 percent. Single people have different wants and needs from couples and families with children. Singles tend to spend less on furniture and appliances, but more on restaurant meals, travel, entertainment, and recreation. This demographic change results in more marketing opportunities for businesses in hospitality, entertainment, and recreation.

Social Changes

The second half of the twentieth century was a time of great social change in the United States. Four major areas of social change are (1) civil rights, (2) women's role, (3) environmental protection, and (4) health consciousness. These changes had major impacts on business and marketing.

Civil Rights

At various times in U.S. history, the civil rights of various ethnic and cultural groups have been denied. As a result of the Civil Rights Movement in the 1950s and 1960s, the civil rights of all Americans, regardless of race, religion, ethnic background, or disability were confirmed. Equal opportunity was confirmed in the areas of education, employment, housing, and voting. The major law passed to protect these rights was the Civil Rights Act of 1964.

As a result, many members of ethnic groups and minorities took these opportunities to get an education, get better jobs, and get involved in governing the country through running for and winning political office. These efforts were rewarded with higher incomes and more visibility in the society. It was also during this time that many ethnic entertainers, writers, and sports figures gained great fame and fortune. Examples include Oprah Winfrey, Sammy Sosa, and Kristi Yamaguchi. Members of ethnic groups also won political offices such as senator, mayor, and governor. Carl Stokes in Cleveland, Ohio, and Richard Hatcher in Gary, Indiana, became the first African American mayors of large cities in 1967.

These changes had a major impact on marketing. First is the increase in buying power, mentioned in the earlier section "Ethnic Groups." Second is the visibility of ethnic celebrities. Many were hired by

large corporations to help advertise their products. Many people with ethnic heritage participated in the creation of the huge rock and roll music industry and then the rap and hip-hop music industries. Through the increased visibility and increased wealth, ethnic celebrities influenced fashion, language, politics, and marketing.

Women's Role

Many women were involved in the Civil Rights Movement. They began to see that they were discriminated against in the workplace. There were also barriers in higher education and in seeking political office. The women's movement of the 1960s and 1970s resulted in many laws that increased women's equality in the workplace and in education. In addition, a variety of social welfare laws made it easier for women to combine work and child rearing.

Even though the Equal Rights Amendment to the U.S. Constitution has not been ratified, the other laws greatly improved women's opportunities. The greatest impact was the increase in the number of women in the workforce. In 1950, only 24 percent of married women worked outside the home. By 2000, more than 62 percent of married women were working outside the home, 14-6.

Because more women are working outside the home, women's buying power has greatly increased. The impact on marketing was the development of products and promotions specifically aimed at women. In addition, products and services were developed to meet the needs of busy women who no longer had the time to do the household chores.

Environmental Protection

Through most of the history of the United States, most people thought the environment had infinite quantities of



14-6

More women are working outside the home.

resources. However, during the second half of the twentieth century, people began realizing that the quantities of important resources were limited. They also realized that pollution was damaging the environment, and that air and water supplies were becoming unhealthful. These realizations resulted in national laws requiring industry to control pollution. A list of environmental laws appears in Chapter 5, Figure 5-5. The cost to control pollution was often passed on to the consumer.

In addition, many consumers decided that they wanted products that protect the environment, and they were willing

to pay more money for them. One of the most famous and successful consumer protests was the campaign against the use of Styrofoam packaging by McDonald's Restaurants. Nationwide consumer protests convinced the McDonald's Corporation to phase out the use of Styrofoam and substitute more environment-friendly packaging.

Health Consciousness

During the second half of the twentieth century, people began to realize that their behavior and food intake have a great impact on their health. Consumers wanted to be healthier and to lose weight. Smart marketers took advantage of this social change, and began providing products to meet these needs, 14-7. The market for more healthful food products increased. The sales of herbs, herbal remedies, vitamins, and dietary supplements have also increased. The diet industry grew. The market for exercise equipment and health clubs also grew.

International Trade

Marketers are always looking for growing markets. Many markets in the United States are not growing or are growing very slowly. However, the markets in many foreign countries are growing quickly. Therefore, many marketers are looking to sell their products in foreign countries. International trade adds diversity to markets for U.S. businesses because foreign countries usually have very different cultures.

For example, the majority of people in India are of the Hindu religion. The Hindu religion believes that cows are sacred animals and should not be eaten. Very few people in India eat beef, and many are vegetarians. When McDonald's decided to open restaurants in India, it learned that McDonald's hamburgers would not sell well

**14-7**

Health consciousness is another major trend.

there because most Indians do not eat beef. McDonald's developed a new menu that Indians would enjoy.

Beware of Stereotyping

Marketers have an ethical obligation to avoid negative stereotyping, cultural bias, prejudice, and discrimination. A **stereotype** is an oversimplified view of a group of people. A stereotype often takes one characteristic, exaggerates it, and assumes that all members

of a group have that characteristic. Marketing messages often work best when they are simple. As a result, marketers often use stereotypes. Stereotypes can be positive, neutral, or negative. Whether a stereotype is positive or negative often depends on how the observer responds to the stereotype.

Stereotypes tend to be negative when they are based on wrong information or exaggerate one aspect of a group of people. For example, women are often used in ads in the role of housewife. This role ignores all the other roles women may have, such as plumber, lawyer, or entrepreneur. Because ads are so visible in our society, such one-sided presentations affect the way people think about what women can do.

Cultural and ethnic groups usually have cultural bias. A **cultural bias** is the belief that a person's own culture or ethnic group is the best. Cultural bias is also called *ethnocentrism*. Pride in your own cultural group is positive. However, cultural bias is negative if it leads you to treat members of other cultures unfairly or with violence. Cultural bias often leads to prejudice. **Prejudice** is hostility toward a group of people. It is often based on a negative stereotype.

Prejudice often leads to discrimination.

Discrimination is the unfair treatment of individuals based on prejudice. Discrimination is illegal in the United States. The Constitution of the United States and laws such as the Civil Rights Act of 1964 and others guarantee all citizens equal rights before the law, regardless of race, national origin, religion, gender, or physical or mental disability. Some of these laws are listed in Chapter 5, Figure 5-3.

Businesses that avoid stereotypes, biases, and discrimination may find that they have more success. These businesses often have a policy to pursue diversity. These businesses make a point of hiring people from diverse backgrounds. The workers from diverse backgrounds enable the company to understand and meet the needs of customers from diverse backgrounds.



Reality Check

Write down three stereotypes of teenagers. Do you think these stereotypes are positive, negative, or neutral?

FUBU the Collection

Taking the Fashion World by Storm

They took the fashion world by storm in the 1990s. FUBU the Collection is one of the hottest selling clothing lines in the fashion industry today, both in the United States and abroad. You can find their clothing in fashion department stores, inner city shops, and rural malls.

Origins

Daymond John was thinking about ways to make quick money. He was in his early 20s. He started making tie-top hats embroidered with the FUBU logo to sell at concerts and local festivals. The hats were successful, and John decided to expand the business. John had been dreaming of designing a line of clothing for the consumer by the consumer. He recruited his friends J. Alexander Martin, Keith Perrin, and Carl Brown, and they became known as Team FUBU. John then got a \$100,000 mortgage and converted his home into a workshop/living space for himself and his friends. They expanded the line to include hockey jerseys, T-shirts, rugby shirts, and baseball caps, all embroidered with the FUBU logo. The items sold well.

Problems Lead to Success

Team FUBU tried to advertise their clothing through traditional methods, but ran into difficulties. Instead of giving up, they decided to try a different method. Since their original target market was young men, they asked hip-hop artists and video directors to help market the brand by wearing FUBU clothing. LL Cool J was a neighborhood friend, and John persuaded him to wear the gear. LL Cool J was also featured in FUBU's first advertising campaign.



Courtesy of FUBU the Collection

The brand took off. FUBU became one of the fastest-growing African American-owned companies in the fashion industry. The brand became synonymous with American hip-hop and Generation Y culture. The brand is now carried in over 5,000 retail stores in 40 countries.

Asian Appeal

Sales in Asia are a major contributor to FUBU's success. The brand has captured the eye and imagination of Asian youth. The urban culture of the United States is fascinating to Asian teens. They are growing dreadlocks, wearing baggy clothes, listening to Asian rap stars, and buying FUBU at a furious pace. FUBU has retail stores and a wholesale distribution channel established in Korea and Japan. FUBU is also developing distribution channels in China, Singapore, Indonesia, Thailand, and Taiwan.

CHAPTER 14 REVIEW

Remember This

- Market diversity creates opportunities in the marketplace.
- Five factors contribute to market diversity in the United States: (1) cultural differences, (2) social classes, (3) demographic changes, (4) social changes, and (5) international trade.
- A person's culture is one of many characteristics that affect what a person needs, wants, and purchases.
- The six main ethnic groups in the United States are themselves made of people who are from a variety of cultures.
- Social class affects buying behavior.
- Three areas of recent demographic changes are (1) increase in the number and wealth of people in ethnic groups, (2) increase in number of people over 65, and (3) increase in single-person households.
- Four major areas of social change are (1) civil rights, (2) women's role, (3) environmental protection, and (4) health consciousness.
- International trade adds diversity to markets for U.S. businesses because foreign countries usually have very different cultures.
- Marketers have an ethical obligation to avoid negative stereotyping.

Review Concepts

1. Why are marketers interested in market diversity?
2. Why is the United States often described as a multicultural society?
3. True or False. The Hispanic American ethnic group is homogeneous. Explain your answer.
4. How can a marketer learn about an ethnic group?
5. Why are marketers interested in social class?
6. What kind of information can a marketer get from the U.S. Census Bureau?
7. Why are marketers interested in demographic changes?
8. How can social changes affect the marketplace?
9. How does international trade make the marketplace more diverse?
10. Why do marketers often use stereotypes?
11. How can stereotypes and cultural bias lead to negative behavior?

Think Critically

1. What would the opposite of a multicultural society look like?
2. Name one of your characteristics that is a result of your culture. Describe how that characteristic became part of your personality.

CHAPTER 14 REVIEW

3. Marketers think that there is a teenage culture. Describe the characteristics of teen culture.
 4. Why are marketers interested in various cultural groups?
 5. True or False. The United States is a classless society. Explain your answer.
 6. How might a person move from the working or middle class to the upper class? Give at least one example of a person who has done so.
 7. How can demographic changes lead to changes in the market?
 8. Imagine that you are a marketer who realizes that consumers want to be healthier. List four products that you could develop to meet this need and want.
3. Use the Internet or the library to find information about corporate diversity programs. Possible Internet search phrases include "diversity initiatives programs" and "diversity training programs." You might also search the Web sites of some corporations to find out what their positions are on diversity and what kinds of diversity programs they have.

Explore Careers

1. Because of diversity, many companies deal with people who speak another language. Often interpreters and translators are needed to conduct business. Do you speak another language or do you enjoy learning languages? A career as an interpreter or translator might appeal to you. Learn about careers as an interpreter or translator by reading the article in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Then find out which languages are in most demand. Visit a job search Web site, such as www.monster.com or www.ajb.dni.us (America's Job Bank). Use the keywords "translator" and the language you speak to search for a job. Make a list of the types of jobs that require the knowledge of this language. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out whether cultural diversity, demographic changes, or social changes have had an impact on the business.
2. Collect job applications from a number of businesses, such as fast-food restaurants and retail stores. How do these businesses let you know that they do not discriminate? Make a poster that displays this part of the applications, and explain what the statements on the applications mean.

2. Diversity issues as well as hiring are handled by the human resources department of a business. What does a human resources manager do? Visit a job search Web site, or search your local newspaper want ads. Search for a job in human resources that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Many advertising and marketing agencies specialize in ethnic markets. Choose an ethnic market. Use the Internet to find a company that specializes in marketing to that market. Describe the company. How does it help businesses reach that particular ethnic market?
2. Visit the Web site of the U.S. Equal Employment Opportunity Commission (www.eeoc.gov). Find a story about a company that discriminated against its employees. Read the story. In your own words, describe what happened to the employees, how the company reacted, why the problem was brought to the EEOC, and the resolution.
3. Visit the Web site of a major corporation that sells consumer products. Search the corporate information link to learn what the business does to encourage diversity. Some corporations have specific "Diversity" links. For example, Mitsubishi's Web site (www.mitsubishicars.com) has a link "Company," which leads you to a page with general company information and more links. One of the links is "Diversity." Describe the company's definition of diversity and what the company is doing to promote diversity.

Targeting a Market

Marketing Terms

business opportunity

mass marketing

target marketing

After studying this chapter,
you will be able to

- describe a business opportunity.
- explain what a marketing strategy is.
- explain the importance of a target market.
- describe advantages and disadvantages of mass marketing.
- describe the advantages and disadvantages of target marketing.

The diversity of the U.S. market provides many business opportunities. An *opportunity* is a chance for success. What is a business opportunity? A business opportunity occurs when you see a need that your company can fulfill. A **business opportunity** is the chance for success provided by the combination of a product idea and a market that is willing and able to buy the product. (Remember that a product can be a good, a service, or an idea.)

Many great business ideas start with one person who has a need or observes a need in others. For example, suppose you are a hairdresser. You observe that there are many people who cannot get out to get haircuts, such as the elderly. You develop a business that goes to people's homes to cut their hair, 15-1. Many product ideas come from personal hobbies or interests. For example, a college student enjoyed watching Japanese animations. He developed a business selling Japanese animation videos, DVDs, and toys.

Not everyone agrees on what a good business opportunity is. For example, Debbie Fields, the founder of Mrs. Fields Cookies, was told by a banker that her idea for a cookie shop was a bad idea. However, Mrs. Fields knew that she had a great product and



15-1

Some people develop a business based on a need they observe or a need they have themselves. Many people develop business ideas based on their hobbies or interests.

that people would buy it. She worked hard to make her idea successful. Now Mrs. Fields has over 650 stores in the United States and 65 stores in 11 foreign countries.

Marketing Strategy

Once you find a business opportunity, you need to develop a way to turn the opportunity into a successful business. One of the first steps is to develop a business plan and a marketing plan. You will learn more

about this in Chapter 52, which discusses entrepreneurship.

An important part of the marketing plan is the marketing strategy. A *strategy* is a plan developed to reach a goal. For businesses that follow the marketing concept, the overall goal is to make a profit by satisfying customers' wants. In order to reach that goal, marketers develop a marketing strategy. As you learned in Chapter 4, a *marketing strategy* consists of the target market and all the decisions in the marketing mix.

$$\text{Target Market} + \text{Marketing Mix} = \text{Marketing Strategy}$$

Marketers develop a marketing strategy by selecting a target market and developing the marketing mix with the target market in mind. Suppose you want to pursue your idea of providing hair care services to the homebound. Your target market would be senior citizens and other homebound people. Your marketing mix would be as follows: product—hair care services such as wash, cut, color, and style; price—competitive with local salons plus a service fee; place—customer's homes in your city; promotion—direct mail and ads in local newspaper.

Target Market

When you develop a marketing strategy, you must first choose your target market. A *target market* is the specific group of customers whose wants and needs you will try to meet with a specific marketing mix. A target market should have the following four qualities:

- clearly defined wants and needs that your company can meet
- money to buy your product
- willingness and authority to buy your product
- enough customers in the market to be profitable

Choosing a target market is one of the most important decisions a marketer makes. If the target market does not want or need your product, your product will not be successful. You might also miss the opportunity to be successful with a different target market. If the target market does not have the money to buy your product, your product will not be successful. If your target market is too small, you will not sell enough products to make a profit.



Reality Check

Think of your favorite store. Who do you think the target market is for this store? Describe the typical customer.

Marketing Mix

The *marketing mix* consists of the decisions made about product, place, price, and promotion for one product. Once you have decided on your target market, you will make your marketing mix decisions with that target market in mind. When you plan your marketing mix, you will think, "How will my target market respond to this?" What happens if you do not have a target market? Imagine that the marketer is a quarterback. Imagine the quarterback trying to throw a pass, but he is blindfolded! That is how a marketer without a target market is, 15-2.

Marketing mix decisions are often called marketing mix strategies. In other words, for each P in the Four Ps, there is a strategy. These strategies will be explored in more detail in other parts of this text. Here is an overview of marketing mix strategies:

- **Product Strategies.** These strategies include all the decisions made about what product to offer. Keep in mind that the term *product* includes goods, services, and ideas. Product strategies include decisions about quality, quantity,



15-2

A marketer without a target market is like a quarterback who is blindfolded.

size, color, features, technical support, packaging, warranties, brand name, and image.

- **Price Strategies.** These strategies include all the decisions made about pricing a product. Price strategies include decisions made about profit, discounts, and sale prices. Pricing can also have an impact on the image of a product.
- **Place Strategies.** These strategies include all the decisions made about where the product will be sold. It includes decisions about how to transport the product, warehousing, inventory control, and order processing, 15-3.
- **Promotion Strategies.** These strategies include all the decisions made about how to tell customers about the company and the product. It includes decisions about advertising, such as the type of ads and where to place them. It also includes decisions about personal selling, customer service, publicity, promotional events, and design and layout of stores.

Usually, marketing mix decisions are interrelated. In other words, a decision made for one of the Ps will affect the decisions made for the other Ps. As a result, decisions

**15-3**

Place strategies include the decisions about how to transport products from factory to warehouse or warehouse to retail store.

for two or more of the Ps may be made at the same time. For example, if the target market wants low prices, the number of product features may have to be reduced so that the company can sell the product at a lower price. Product decisions, such as brand name and packaging, are often chosen because they will work well in promotions.

choices. So Ford developed one product, one price, one type of distribution, and one promotion. He was very successful with it.

Today, very few consumer businesses use mass marketing successfully. Mass marketing presents two problems. One problem is related to the nature of consumer markets. The other is related to profitability.

Mass Marketing

A *mass market* consists of all the customers for a specific type of product. For example, everyone who wants a car and is able and willing to buy a car is part of the mass market for cars. **Mass marketing** is the development of only one marketing mix for a specific product. Mass marketing assumes that everyone has exactly the same wants and needs for the product. When Henry Ford developed his first car, the Model T, he had one marketing mix. Ford was fond of saying, "You can have any color Model T you want, as long as it is black." Part of the reason for Ford's mass marketing approach is that the manufacture of automobiles was just beginning. There were not many other



Reality Check

Name a product for which there is a mass market.

Nature of Consumer Markets

The nature of consumer markets is that they are diverse. That is, most consumer markets consist of many groups of consumers with many different needs. Mass marketing looks at the market as a mass. It assumes that all customers have the same needs and wants for the product. In reality, there are very few consumer mass markets in which everyone has the same needs and wants for a specific product.

Think of the current market for cars. Can you imagine a car manufacturer making one car that would meet the needs of everyone in the mass market for cars? Think of the different needs customers have for automobiles, 15-4. Here are some examples. One group of car customers wants an expensive luxury car. Another group wants a minivan to hold a team of kids and all their soccer gear. Another group wants the cheapest car possible. Another group wants a pick-up truck. In most consumer markets, the mass market is made of customers with different needs for the product.



15-4

Could one style of car meet the needs of everyone in the market for a car?



Reality Check

Name a product for which different groups of consumers have different needs.

Profitability

Every business wants to make a profit. Mass marketing is often very inefficient and expensive. For example, advertising to a mass market through television commercials is very expensive. As a result, mass marketing may not result in profits. In addition, every business has limited resources. Each business has to decide where it will spend its limited resources.

Here is a hypothetical example for the purpose of illustrating the point. Suppose you decide to start a house-cleaning business. You also decide on a mass market approach. Your one product will be four hours of cleaning. The price will be \$100. You will advertise on TV. TV advertising is very expensive. If you advertise on all shows and at all times, your cost of advertising will be very high. You will be spending money to reach many people who are not potential customers. You will spend more on advertising than you would ever earn from your business.

Target Marketing

As a result of these two problems, marketers developed an approach called target marketing. In the target marketing approach, marketers analyze the mass market. They then *segment* (divide up) the market based on the different needs and wants of the customers in that market. The company will then choose one of those segments. It will develop a marketing mix—product, place, price, and promotion—to meet the unique wants and needs of that market segment. The development of a

unique marketing mix for a target market is called **target marketing**. Some companies will choose two or more segments to target, but will develop a unique marketing mix for each segment.

What makes a marketing mix unique? One or more of the Four Ps are changed to meet the target market's unique needs and wants. The product can be changed by adding different features. The price can be changed to match the new level of features. The place where a product is offered can be

changed; for example, an Internet Web site can be added as a way to obtain the product. Last but not least, the promotion can be changed to appeal to the target market's unique wants and needs.

The modern automobile industry segments and targets specific markets, 15-5. For example, General Motors has developed many brands and models of cars to meet the needs of various market segments. Here are a few examples. The Chevrolet Aveo is a small economy car with a low price. It is



Legend:

-  = People who want economy cars
-  = People who want luxury cars
-  = People who want pick-up trucks

15-5

The automobile industry segments the market and then targets specific segments with specific types of cars. This diagram shows a simplified version of the thought process for segmenting a market.

targeted to first car buyers with relatively little money and others who just need basic transportation. The Cadillac STS is a larger, high-performance luxury sedan with a high price. Its target market is wealthy adults who want a luxury car that is also a status symbol. The GMC Sierra is a pick-up truck of moderate price. It is targeted at people who want a truck with some extra features and performance.

How would target marketing work for your house-cleaning business? First, you would analyze the market for cleaning services. What segments are there? What are their needs? Which segment of the market would you like to focus on? Here are some segments: elderly who want regular heavy cleaning but no light cleaning at the lowest price, busy adults who want thorough but reasonably priced regular cleaning, and luxury homeowners who want their large homes thoroughly cleaned on a regular basis and are willing to pay higher prices.

You decide on the busy adults segment. You then research this market to find out what they need and are willing to pay for, so that you can customize the Four Ps to meet their needs. You find that they want four-hour weekly cleaning. You also find out that they are willing to pay between \$60 and \$100, depending on the size of the home. So you set up a price scale depending on the square footage of the home. You also find out that these busy adults listen to the local radio station on their way to work and read the Thursday newspaper for the ads. So you decide to change your promotion to a morning radio ad plus an ad in the Thursday local paper.



Reality Check

Name another industry that segments and targets markets. Give an example of two products and their different features and target markets.

Choosing Your Target Market

There are four general approaches to choosing a target market: (1) decide on the target market first and then develop a product, (2) develop a great product idea and then look for a target market that would like it, (3) develop the product idea and target market together, and (4) take a current product whose sales are falling and then look for a new target market for the product. Here are several examples.

- **Target Market First.** A very popular target market is teenagers! It is a large market with money to spend. In the United States there are over 24 million teenagers, and they spend an average of \$35 a week. Many companies decide first that they want to market to teenagers. They then develop new products or modify old ones to meet teenagers' wants and needs, 15-6.
- **Product Idea First.** In the 1940s, an engineer researching a synthetic substitute for rubber mixed a bunch of chemicals together. The result was a sort of liquid, sort of solid goo that bounced when dropped. Everyone thought the stuff was cool, but no one could think of an industrial or practical use for it. A marketer, Paul Hodgson, saw the stuff and decided it had great potential as a toy. He named it "Silly Putty" and packaged it in a plastic egg. Silly Putty became one of the most popular American toys. The target market for that toy is children.
- **Product and Target Market Together.** Products are often developed with the needs of a particular market in mind. For example, Susan Yee, an Asian American, was very frustrated because she could not find cosmetics appropriate for her skin coloring. She and her sisters

**15-6**

Many companies target the teen market.

developed Zhen cosmetics specifically for Asian complexions. These cosmetics meet the needs of their target market, Asian American women.

- **Old Product, New Target Market.** Volkswagen automobiles have been around for a long time. However, in 1997 Volkswagen in the United States wanted to target a market called “Generation X,” that is, people born between 1966 and 1976. Volkswagen modified their Golf model by adding a custom roof rack and K2 brand skis or snowboard, and named the new edition Golf K2. They also designed a promotion campaign that would appeal to the adventurousness of many Generation Xers.

Advantages and Disadvantages of Targeting a Market

For a business to be successful, it does not have to sell to every customer in the mass market. Businesses have discovered that when they try to meet the needs of a mass market with a single marketing strategy, they may satisfy very few customers. Such businesses may not make a profit. Many businesses have discovered that focusing on a particular market segment leads to more success and more profits. By focusing on one segment of the market, the business

can develop a marketing mix that satisfies the needs of most of the customers in that market segment. After gaining success with one market segment, the business can then expand to another segment.

Target marketing also enables small businesses to compete with larger companies. The small business looks for a segment of the market whose needs are not being met. Often, a small segment of a market can be very profitable, especially if you have almost that entire market segment. This small market is called a *market niche*.

Kaepa, Inc., for example, is a sneaker manufacturer. In the 1980s, larger companies such as Nike and Reebok took most of its sales away. Kaepa's sales of sneakers fell and the company was losing money. Then, Kaepa decided to focus on the shoe needs of cheerleaders. Kaepa developed shoes that meet the specific needs of cheerleaders. For example, their shoes have grooves in the soles for the cheerleaders' fingers when they make human pyramids. Kaepa also makes custom shoes with team colors and logos. Kaepa, Inc. became very successful by targeting a small segment of the athletic shoe market, and then meeting that segment's specific needs, 15-7.

There are two potential problems with target marketing. First, you may choose a market that is too small. As a result, there are not enough customers to make your business profitable. The second problem with target marketing is that you may choose the wrong target market. In this case, you also will not make a profit. You may also miss the opportunity to make a profit from a different target market that would be larger and



15-7

Small companies can compete by finding a niche market, that is, a small segment of the larger market whose needs are not being served. Kaepa, an athletic shoe manufacturer, focuses on shoes for cheerleaders and is very successful in this market niche.

more profitable. These two problems can be avoided by appropriate market segmentation and marketing research.

The other potential problem with target marketing occurs when all of the company's business depends on one market segment. Suppose that market segment suffers financial losses. That segment will reduce or stop buying products from the company. The company will then also have financial losses.

CHAPTER 15 REVIEW

Remember This

- A business opportunity occurs when you see a need that your company can fulfill.
- Marketing strategy is target market plus marketing mix.
- Choosing a target market is one of the most important decisions a marketer makes.
- After choosing a target market, all marketing decisions are made with the target market in mind.
- The advantage of mass marketing is that the company deals with one large market and one marketing mix. The disadvantage is that the one marketing mix may not meet the needs of many customers. As a result, the business may not make a profit.
- The advantage of target marketing is that the company can specialize in meeting the specific needs of the target market.
- Potential problems with target marketing occur if you choose the wrong target market, or if you become too dependent on one target market.

Review Concepts

1. Why is the target market part of a marketing strategy?
 2. List the four qualities that a target market should have.
 3. Why is the marketing mix part of a marketing strategy?
 4. A mass marketing strategy is usually not successful. Why?
 5. What is the difference between mass marketing and target marketing?
 6. What is the relationship between segmenting a market and target marketing?
 7. List the four general approaches to choosing a target market.
 8. Explain two potential problems with target marketing.
- ## Think Critically
1. Where can you find business opportunities?
 2. Why is choosing a target market one of the most important decisions a marketer makes?
 3. Choose a product that you have seen for sale. What is the marketing strategy for that product? Indicate the target market and the Four Ps.
 4. Marketing mix decisions are interrelated. Explain what this means.
 5. Shampoo is a product that everyone uses. Does shampoo have a mass marketing strategy? Explain your answer.
 6. How does target marketing enable a small business to compete with larger businesses?

CHAPTER 15 REVIEW

Connect to Business

1. Think of your workstation or a business with which you are familiar. What is the business's product? Describe the target market that the business focuses on.
 2. Look through some newspapers and magazines. Select an ad for a product. Cut out the ad. Describe the product being advertised. Based on the ad, describe the target market that the product and ad are designed to attract.
2. Design is an important step in creating new products. Visit the Web site of General Motors (www.gm.com). Click on the "Careers" link, then the "Career Paths" link, then the "Design Center" link. What is the role of a designer at GM? What kind of preparation do you need to design cars? Which schools does GM go to for design workers? Would you like to be a designer?

Explore Careers

1. Use the library or Internet to find the story of an entrepreneur. How did this person find a business opportunity? How did he or she turn it into a successful business? What were the product, the target market, and the marketing mix? What kinds of problems did the person encounter, and how did he or she overcome them? Would you like to be an entrepreneur?
2. Visit the Web site of E-Bay (www.ebay.com) or Amazon (www.amazon.com). Does the Web site appeal to a mass market or to market segments? Give reasons and examples from the Web site to support your answer.

Connect to the Internet

16

Segmenting a Market

Marketing Terms

market segmentation

segmentation variable

geographic segmentation

census

demographic information

demographic segmentation

generation

disposable income

discretionary income

psychographic segmentation

behavioral segmentation

80/20 rule

market segment profile

After studying this chapter, you will be able to

- explain how segmentation helps a marketer determine a market to target.
- list the four categories of segmentation variables for the consumer market.
- explain each segmentation category and give one example.
- describe how marketers use more than one segmentation variable.

Think about the people you see in the local mall. How might these people be similar and different in their wants and needs for products? How can a marketer decide which group to target? Marketers have developed ways to analyze a large mass market and break it up into segments, 16-1. *To segment a market* means to divide a mass market into smaller markets with similar characteristics. Once the market is segmented, the marketer can then select one of the segments to be the target market.

Market Segmentation

The process of dividing a large market into smaller parts is called **market segmentation**. Each smaller part is called a



Photo courtesy of The Mills Corp.

16-1

Think about the people you see in the mall. How do their wants and needs differ? Marketers have developed ways to analyze a large mass market and break it up into segments.

market segment. Each *market segment* is made of customers with similar wants and needs for a specific product. Market segmentation helps marketers find an appropriate target market. Marketers often segment the market, study the segments, then choose one (or more) of the segments as their target market.

In the consumer market, marketers use characteristics of customers to segment the market. For example, a marketer might segment a market based on the age of the customers. A customer characteristic that is used to segment a market is called a **segmentation variable**. Age is a segmentation variable. Some other segmentation variables are income level (how much money the customer makes) and gender (whether the customer is male or female). The assumption is that based on these variables, the customers in the segment have similar wants and needs for products.

There are over 25 different variables that marketers commonly use to segment the consumer market. Marketers have organized these variables into four categories:

(1) geographic, (2) demographic, (3) psychographic, and (4) behavioral.

Business marketers also segment their markets. Segmentation of business markets will be discussed in Chapter 18.



Reality Check

Imagine that \$100 are available to spend. How might a teenaged male spend the money? A teenaged female? A 30-year-old parent with two children? A wealthy 40-year-old? A retired person on a very small fixed income?

Geographic Variables

Segmenting a market based on where customers live is called **geographic segmentation**. Commonly used geographic variables include location, climate, and city size.

Location

Customers' needs for products often vary based on where they live. Customers who live in the same country often need different products from those who live in a different country. For example, automobiles for Americans must have the steering wheel on the left. Automobiles for the British must have the steering wheel on the right. Therefore, a company that produces cars for the world market would segment the market by places that need the steering wheel on the left (America) and those that need the steering wheel on the right (England). (This would not be the only segmentation variable that a car manufacturer would consider in developing a car.)

Climate

Climate has a huge impact on what customers need. Customers who live in climates where it never gets colder than 60°F (15.5°C) do not need warm coats. Customers who live where the average winter temperature is 20°F (−6.7°C) need warm coats. Therefore, a coat manufacturer might segment the market based on average winter temperatures, 16-2.

City Size

Many marketers have discovered that market size varies with the size of the city. Some cities are too small to be profitable for certain businesses. For example, one restaurant chain will locate restaurants only in cities of 200,000 or more people. Smaller



16-2

Marketers of certain products, such as coats, segment the market based on climate.

cities do not provide enough customers for this particular business. Other businesses prefer to focus on the needs of a small city or town. Wal-Mart is the classic example. When Wal-Mart started, it located its stores in small towns.



Reality Check

Choose a geographic variable. Think of a product that can be segmented based on that variable. Name the product and the geographic variable. Then describe each market segment.

Demographic Variables

Most nations want to know basic information about their citizens, such as how many people are in each age group. As a result, most nations count the number of people in their countries. A **census** is a count of the people in a country made by the government on a regular basis. The United States takes a census every ten years. The government agency that performs the census is the U.S. Census Bureau (www.census.gov).

A census collects demographic information. **Demographic information** consists of statistics (numbers) that describe the characteristics of a population of people. For example, the Census Bureau will ask the age of each person; it will then compile a graph that shows how many people in the country are in each age group.

The categories that this information is divided into are called *demographic variables*. Segmenting a market based on demographic variables is called **demographic segmentation**. Demographic variables commonly used by marketers include age, gender, ethnicity, income, and family size.

Age

Age is a commonly used segmentation variable because people at different ages have different needs and wants, 16-3. For example, babies require special food, so a number of companies specialize in producing baby food. Clothing is another area where age affects wants and needs.

An important variable related to age is generation. A **generation** is a group of people born during a particular period of history. The period of history that a group of people grew up in has a major effect on their attitudes, wants, and needs. Figure 16-4 lists recent generations. One of the most famous generations is the Baby Boomers. These people were born between 1946 and 1964, in the years after World War II. The Baby



16-3

People of different ages have different wants and needs. Markets are often segmented based on age.

Boomers were influenced by television in the 1950s, the countercultural Woodstock music festival in the 1960s, the Vietnam War in the 1970s, and the materialism of the 1980s. Marketers like to target this generation because it is large, distinct, and wealthy.



Reality Check

Name a product whose market is segmented by age. Describe the different market segments and describe how the product differs for each age segment.

Generations			
Years Born	Generation Name	Size in 2000 (millions)	U.S. Population (%)
1995 – present	Generation Z (also called Post-Millennials)	23	8
1977 – 1994	Generation Y (also called Millennials)	73	26
1965 – 1976	Generation X	48	17
1946 – 1964	Baby Boomers	78	28
1933 – 1945	Swing Generation	30	11
Before 1933	World War II Generation	29	10
Total		281	100

16-4

The U.S. consumer market is often segmented by generations.

Gender

Men and women differ in their wants and needs for many products. Marketers use these differences to develop products that meet the specific needs of men or the specific needs of women. For example, the Lady Footlocker stores provide running shoes and other athletic equipment that meet the specific needs of women.

Ethnicity

The United States is composed of people from a variety of ethnic backgrounds. The need for jeans does not vary based on a person's ethnic background. However, needs for other products may vary with ethnic heritage. For example, a person of Chinese heritage may want specific Chinese cooking ingredients, such as dried squid and yellow bean paste. In addition, many people enjoy products related to the ethnic heritage of other people. For example, people from many ethnic backgrounds enjoy cooking and eating Chinese food. Many marketers have found success by segmenting the market based on ethnicity. They then

develop products to meet the needs of a specific ethnic group and the wants of people interested in that ethnic group.

Income

Income level has a major influence on what people buy, therefore marketers often segment the market based on income level. Income level and buying patterns are also related to social class, as described in Chapter 14.

People with similar income levels often buy similar types of products. People in the lower income groups tend to spend a larger percentage of their incomes on necessities, such as food, clothing, and shelter. People with higher incomes tend to spend relatively more on recreation, education, and luxuries.

There are two categories of income that marketers are interested in: disposable and discretionary. **Disposable income** is the income a person has available to spend (dispose of) after taxes have been taken out. Usually, the first things that disposable income is spent on are the necessities of life—food, clothing, shelter, and transportation. **Discretionary income** is the income left after taxes and after the necessities of life

have been paid for. Discretionary income is the money a person can spend at his or her discretion, that is, however he or she wants. Discretionary income is often spent on entertainment, vacations, restaurant meals, and similar products, 16-5.

Some marketers decide they want to focus on luxury items. In order to be able to afford various luxury items, one must have a fairly high income. The U.S. Census Bureau collects information on income levels based on geographic location. Marketing research can determine which areas of the country have the highest average incomes. The marketers of luxury items can then target advertising campaigns to those areas.

Family Size

Marketers have discovered that a household consisting of one person has quite different needs and wants from a household consisting of one or two parents and one or more children. As a result, marketers often segment the market based on family size. For example, many convenience food manufacturers have developed single-serving packaging to meet the needs of single-person households.



16-5

Discretionary income is the money you have left after necessities and taxes are paid. People use discretionary income to buy luxuries, such as restaurant meals and vacations.



Reality Check

Choose a demographic variable. Think of a product that can be segmented based on that variable. Name the product and the demographic variable. Describe each market segment.

Psychographic Variables

Customers have psychological and emotional characteristics that affect their needs and wants for products. Segmenting a market based on psychological characteristics of customers is called **psychographic segmentation**. Aspects that are considered in psychographic segmentation are hobbies, social activities, lifestyle, interests, and attitudes. Psychographic information about target markets is very useful when planning promotion. If you show the target market in the ad, people see themselves and can relate better to the promotional message.

Hobbies and Activities

People who participate in the same activities or have the same hobbies tend to have similar buying patterns. Examples of hobbies include photography, quilting, and stamp collecting. Examples of activities include all types of sports, visiting museums, and attending operas.

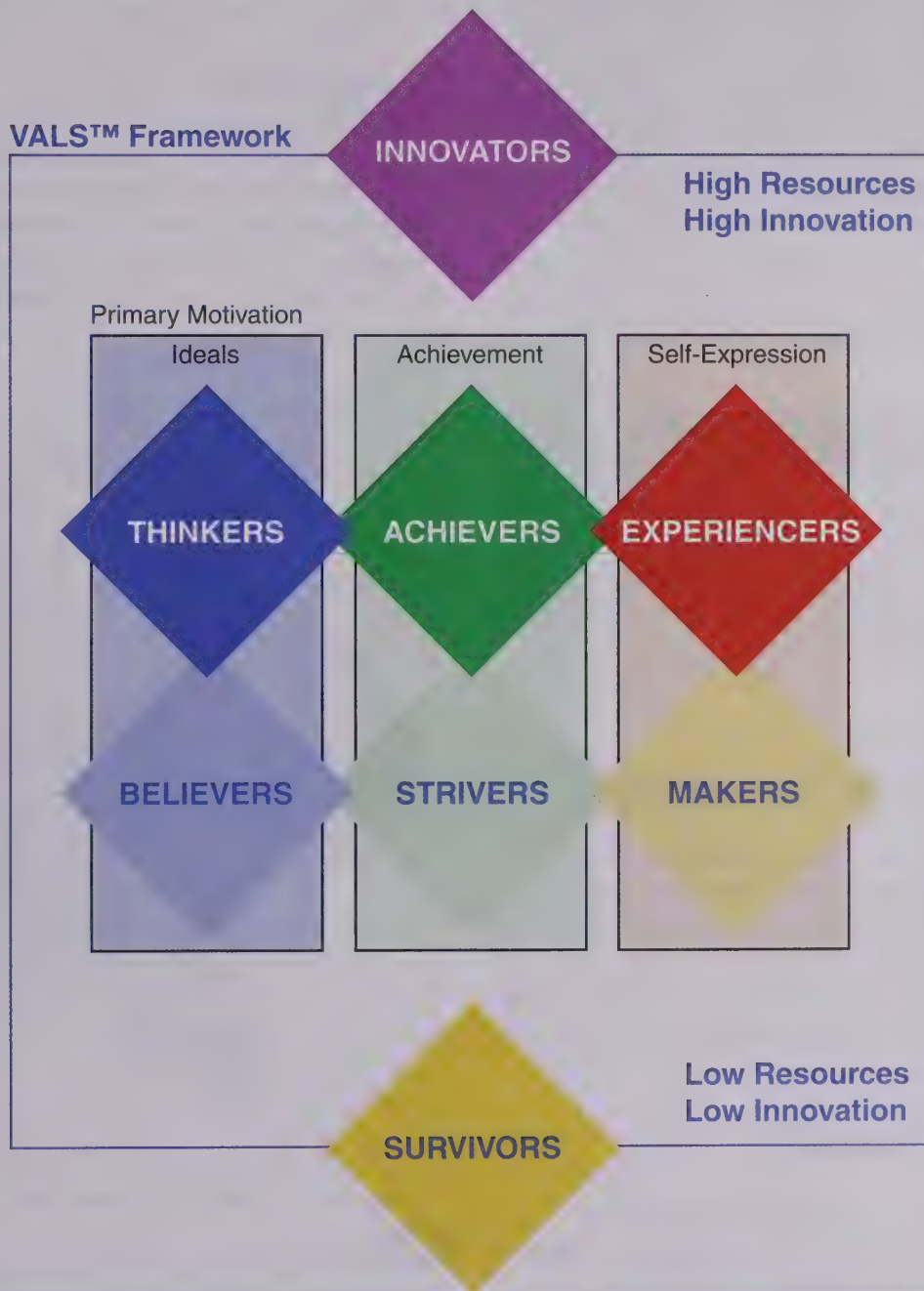
Lifestyle

Lifestyle and values are often difficult to measure and define. In order to group people in this way, marketing researchers administer surveys that ask participants to agree or disagree with a variety of statements called *AIO statements*. AIO stands for activities, interests, and opinions. A marketing research company well known for its psychographic research and data is SRI Consulting Business

Intelligence (SRIC-BI). Their survey is called the VALS™ Survey. Here are some sample statements from a VALS Survey:

- I follow the latest trends and fashions.
- I would rather make something than buy it.
- I consider myself an intellectual.

VALS divides U.S. adult consumers into eight VALS market segments based on the results of this survey, 16-6. These segments are based on consumer psychology that affects buying behavior. These segments are organized on a grid. The variable from top to bottom is level of resources: high to low.



The variable from left to right is personal motivation: ideals, achievement, and self-expression. For example, one group is called *Achievers*. This group is concerned about status, has a fair amount of income, tends to buy premium products, and watches an average amount of TV. Another group is called *Survivors*. This group is concerned about safety, has relatively little income, tends to be loyal to brands, and watches a more-than-average amount of TV. Marketers would use the information about these groups to choose a target market. They would then use the information to customize the marketing mix to meet the unique needs of the market they targeted. A product for the Achievers would have a different marketing mix from a product for Survivors.



Reality Check

Choose a psychographic variable. Think of a product that can be segmented based on that variable. Name the product and the psychographic variable. Describe each market segment.

Behavioral Variables

Customers differ in the way they use products. Segmenting a market based on the way customers use a product or behave toward a product is called **behavioral segmentation**. Common behavioral variables include features desired, usage rate, and brand loyalty.

Features Desired

Customers vary in the features they want from a product. For example, the mass market for home personal computers is huge. However, one type of computer will not meet the needs of all computer users. Some computer users want a basic computer

for word processing and e-mail only. Other computer users want a computer with a few more features so that they can play games and surf the Net. Other computer users want advanced features so that they can edit video and have three-dimensional graphics. As a result, home computer manufacturers often segment their market based on the features that the customer wants, 16-7.

Usage Rate

As amazing as it might seem, research shows that for many businesses, 80 percent of the sales come from 20 percent of the customers. This observation is called the **80/20 rule**: the majority of a business's profits come from a small number of customers. For this reason, marketers often segment the market based on how often the customer



16-7

Computer manufacturers may segment the market based on the features that customers want. Some customers want a basic computer. Others want advanced features.

uses or buys the product (*usage rate*). Usage rate categories include heavy, moderate, light, and nonuser.

Brand Loyalty

Customers vary in how loyal they are to a particular brand. The value of brand loyalty is related to the 80/20 rule. Loyal customers often are the source of most of a company's sales. As a result, marketers often segment the market based on degree of loyalty. For example, airlines have developed frequent flier programs to reward airline customers who use the airline frequently. The frequent flier programs also encourage customers to use one airline for all their travel needs.

are many other variables that do not appear in this figure. Many of the statistics used in market segmentation can be found on the Web site of the U.S. Census Bureau (www.census.gov).



Reality Check

Choose a behavioral variable. Think of a product that can be segmented based on that variable. Name the product and the behavioral variable. Describe each market segment.

Combining Variables

Often, marketers find it useful to target a market based on two or more segmentation variables. A common combination is geographic location with a demographic variable, such as income. Marketers of luxury products can get the zip codes of people with the highest income levels.

Figure 16-8 provides an overview of the segmentation categories and variables. There



Reality Check

Think of a product that has a large market. Think of two or more segmentation variables for that market. Name the product. Then list the segmentation variables and the market segments based on them.

Market Segment Profile

Once marketers have divided a market into segments, they must choose the segment or segments to target. To help them make this decision, they often develop a market segment profile for each segment. A **market segment profile** is a detailed description of the typical consumer in a market segment. This profile will include geographic location, demographics, psychographics, and behavior relevant to the product.

The segment profiles can then be used when the segments are chosen. In order to plan a marketing mix that meets the target market's needs, the marketer needs to know as much as possible about the customers in the market. The marketer should be able to "see" the typical customer in his or her mind.

Some Variables Used To Segment the Consumer Market

Category	Variable	Examples
Geographic	Location	• Domestic/foreign • Local/regional/national
	Climate	• Warm/cold • Humid/dry
	City Size	• Under 200,000 population • Over 200,000 population
Demographic	Age	• Senior/adult/teen/child/infant
	Generation	• Baby Boomer/Generation X/Generation Y
	Gender	• Male/female
	Ethnicity	• European American/African American/Hispanic American/Asian American/Arab American • Mexican/Cuban/Puerto Rican/South American • Japanese/Chinese/Vietnamese/Thai/Filipino
	Income	• Under \$100,000 annual • Over \$100,000 annual
	Family Size	• One person/two people/three or more people • Children/no children
Psychographic	Hobbies	• Photography/quilting/stamp collecting
	Sports	• Basketball/bicycling/skiing/swimming
	VALS™	• Innovator/thinker/believer/achiever/striver/experiencer/maker/survivor
Behavioral	Features Desired	• Basic features/one or two special features/advanced features
	Usage Rate	• Heavy/moderate/light/nonuser
	Brand Loyalty	• Totally loyal/mostly loyal/not loyal

16-8

These are some of the segmentation variables that marketers use to segment a market.

CHAPTER 16 REVIEW

Remember This

- Market segmentation is a process that helps marketers find an appropriate target market.
- Consumer markets are often segmented based on the following four categories of variables: (1) geographic, (2) demographic, (3) psychographic, and (4) behavioral.
- Marketers often use more than one segmentation variable to segment a market.

Review Concepts

1. What do you call the process of dividing a large market into smaller parts?
2. What do you call a customer characteristic that is used to segment the market?
3. List three commonly used geographic variables.
4. List five commonly used demographic variables.
5. Why do marketers use generation to segment a market?
6. Why might a marketer segment the market based on family size? Give an example.
7. List five commonly used psychographic variables.
8. Why might a marketer segment the market based on hobbies? Give an example.
9. List three commonly used behavioral variables.
10. How might a marketer segment a market based on features desired?

Think Critically

1. Why do marketers segment a market?
2. Name three products for which geographic segmentation would help determine the appropriate target market.
3. Which generation are you in? Your parents? Grandparents?
4. Why are marketers still interested in marketing to the Baby Boomers?
5. How might a marketer use income information from the U.S. Census Bureau to segment a market?
6. Suppose a marketer was trying to reach you as the typical consumer for the market segment he or she wanted to target. Write a brief market segment profile of a segment that would include you. Include at least one of each of the four segmentation variables that would describe you.

Connect to Business

1. Visit a grocery store. Study the shelves where the cereal is displayed. How is the cereal market segmented? Write a description of at least three segments in the cereal market. Describe each market segment and the type of cereal that segment prefers. Use the segmentation variables in your description.
2. Find an ad in a newspaper or magazine. Based on the ad, describe the market segment that this ad targets. Use the segmentation variables in your description.

CHAPTER 16 REVIEW

3. Use library resources to find the most recent issue of the magazine *American Demographics*. First, determine the target market for this magazine. Then make a list of the topics covered. Choose one article. Summarize the article and explain how the information in that article might impact marketing and business.

Explore Careers

1. A demographer studies changes in populations of people. Use library resources or the Internet to learn what a demographer does. Then visit the Web site of the Population Association of America (www.popassoc.org). Click on the link "Job Announcements and Funding Opportunities." Browse through the job listings. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Use library resources or go to the Web site of a college or university. List the courses taken by students who major in the social sciences. Then find the article on "Social Scientists" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Make a list of the different types of social scientists. For each type, describe the kinds of work they could do for business. Do any of these careers appeal to you? Explain why or why not.

Connect to the Internet

1. Visit the Web site of the U.S. Census Bureau (www.census.gov). First, find the slogan for the U.S. Census Bureau. Why do you think the Census Bureau chose this slogan? Describe the information that you can find on this site. How might marketers use this information?
2. Visit the Web site of the company that developed the VALS™ Survey, SRIC-BI (www.sric-bi.com). Click on the link for the VALS Survey, and take the survey. What is your VALS™ type? How does this compare with the way you look at yourself?
3. Visit the Web site of Claritas, a marketing research company that specializes in market segmentation (www.claritas.com). Click on the link, "You Are Where You Live." Enter your zip code, and list the segments that describe your neighborhood. Look up the descriptions of each segment. How do these segment descriptions compare with the way you think of your neighborhood?

Understanding Consumer Behavior

Marketing Terms

psychological influences

motive

motivate

buying motive

social influences

word-of-mouth publicity

reference group

peer pressure

situational influences

impulse purchase

routine buying decision

limited decision making

extensive decision making

After studying this chapter, you will be able to

- list the three categories of influences on consumers.
- explain how a need leads to an action.
- list Maslow's hierarchy of needs in order.
- explain how marketers use needs to develop products and promotions.
- list six buying motives and the basis for each one.
- describe the consumer decision process.
- list and explain the four levels of consumer buying decisions.

Think about your most recent purchase. Maybe it was a candy bar. Maybe it was the latest book by your favorite author. Why did you make the purchase? What influenced you to make the purchase? There are three categories of influences on consumers: (1) psychological, (2) social, and (3) situational, 17-1.

Psychological Influences

Psychological influences are the influences that come from within a person. According to psychologists, our needs are responsible for many of our purchases. Psychologists say a *need* is a lack within the



17-1

What motivated you to make your most recent purchase? What influences consumers to buy products?

person that must be filled. An example of a need is the lack of food. When a need is not satisfied, it turns into a drive. A *drive* is an internal force that results in action. The purpose of the action is to fill the need. For example, hunger is the drive for food. Hunger causes a person to seek and eat food. Once the food is eaten, the lack is gone. Hunger (the drive for food) is also gone.

Hierarchy of Needs

Another term for drive is motive. A **motive** is an internal push that causes a person to act. Motives are based on needs. To **motivate** is to provide the internal push that results in action.

In the 1950s, Abraham Maslow, a psychologist, was trying to figure out why people behave the way they do. He developed a theory that is now referred to as

Maslow's hierarchy of needs. Maslow states that unsatisfied needs motivate people to act. However, all needs are not equal. There is a hierarchy of needs. That means that certain needs must be satisfied before others. Certain needs are more forceful than others. Maslow presented this hierarchy of needs as a pyramid. The needs at the base must be fulfilled before the needs above it, 17-2.

According to Maslow, the most basic needs are physical. These include the need for food, water, air, and shelter. The next level of needs is safety needs. People have strong needs to be safe from physical harm and to have financial security. The next level is acceptance needs, which are also called social needs. People need to feel accepted by others and that they are part of a group. The next level is the need for esteem. People



17-2

Maslow organized human needs into a pyramid. The needs at the bottom must be at least partially met before a person can work to meet needs at the higher levels.

need to feel confident in themselves and that others respect them. The highest level is self-actualization. Self-actualization is the need to express your true self, through reaching personal goals and helping others.

The theory says that people's basic physical and safety needs must be satisfied before they start trying to satisfy acceptance, esteem, and self-actualization needs. For example, if a person is hungry, he or she will seek food before any other product. It is in part for this reason that so many malls provide food courts. People will not be interested in buying other things if they are hungry.

Many marketers use Maslow's understanding of human needs to develop products and promotion strategies. Many marketers design their products to meet a certain need. They then focus their promotion on that need. For example, pharmaceutical companies will develop medicines that relieve headache pain. They will then advertise that the medicine relieves pain. Other marketers study their market to see which needs their products could meet. For example, many consumers are concerned about heart health. As a result, many cereal companies advertise their cereals as being heart-healthy.

In the modern consumer market, many products satisfy more than one need. In a choice between products, consumers usually choose the product that satisfies the most needs. For example, you may want a car to satisfy the need for transportation to work. If a certain make and model also impresses your friends, you might purchase that one instead of another one.

Needs into Wants

The human mind usually transforms needs into wants. A *want* is a conscious desire for something. Wants are usually learned during life, based on personal experience, culture, and education. For example, hunger (the need for food) can be satisfied by any type of nourishment, including bread and water. However, most people transform hunger into the want for a certain food. For example, a hungry American might want a hamburger. A hungry Greek might want a gyros sandwich. A hungry vegetarian might want a tofu burger.

Sometimes people are not aware of their needs. However, they are usually aware of their wants. For example, a person may want a certain brand of clothing. The underlying need might be to be accepted by peers who wear only that brand of clothing. Marketers can use their understanding of the customers' needs to develop products and marketing mixes that satisfy unconscious needs as well as conscious wants.

People also have needs that can be developed. For example, before Sony invented the Sony Walkman portable personal radio, people were unaware of a need for such a device. Once the product was developed, many people learned that they needed and wanted portable audio devices with headphones.

When customers perceive a need, feel a drive, or have a want, they seek a way to satisfy it. Customers may not shop for a particular product. Rather, they shop for the need-satisfying qualities of the product. A need-satisfying quality of a product is often referred to as a *benefit* of the product, 17-3. Salespeople are often most successful when they present the benefits of their products. The salesperson helps the customer see the connection between product features and the desired benefit.



Reality Check

Name a product that you purchased recently. What was the promotion for that product? Which need on Maslow's hierarchy did it satisfy?



17-3

A product's benefit is its ability to satisfy needs and wants.



Reality Check

Name a product that you purchased recently or would like to purchase. Name the need, want, or drive that caused you to buy that product. Describe the need-satisfying qualities (benefits) of that product.

Wants into Buying Motives

Marketers like to organize consumer needs and wants into buying motives. A **buying motive** is the reason that a consumer

seeks a product. Understanding buying motives is particularly helpful to salespeople. A salesperson has a very short amount of time to determine what the consumer wants and why. There are many different ways to organize buying motives. Salespeople often consider them in pairs: physical versus psychological, rational versus emotional, and product versus patronage, 17-4.



Reality Check

Name a product that you (or someone you know) purchased recently. What was the buying motive? What are the benefits of this product? Which product features provide these benefits?

Social Influences

Social influences are the influences that come from the society in which you live. Social influences are conveyed to you through the people around you, such as your family, your friends, your classmates, and other social or professional groups to which you belong. The media, such as TV and movies, also exert social influences. Social influences can be organized into three categories: (1) culture, (2) family, and (3) friends and coworkers.

Culture

Culture has a very strong influence on buying decisions. As you learned in Chapter 14, culture affects many aspects of a person's life. The ethnic group and social class you grew up in provide you with an initial set of values, beliefs, and behaviors. Your culture often provides you with attitudes toward products, buying, credit, and shopping. The culture you grew up in also may affect your ideas of what is appropriate to buy, wear, and do. For example, if you grew up in a

Types of Buying Motives

Buying Motives	Basis	Examples
Physical motives	Physical needs	Food, shelter, health and well-being, protection from harm, safety, relaxation, relief from stress
Psychological motives	Psychological and social needs	Friendship, respect, appreciation, love, reputation, distinction, prestige, importance, recognition, enjoyment, fun
Rational motives	Logical reasoning	Features, quality, durability, dependability, price
Emotional motives	Emotions, impulse, instincts	Popularity, acceptance, romance, thrill seeking, adventure, anxiety, fear, prestige, recognition
Product motives	Features of product	Features, quality, design, color, brand
Patronage motives	Features of a specific store	Location, reputation for reliability and quality, positive image in community, atmosphere, service

17-4

There are many ways to think about buying motives. This table shows several ways.

Hispanic family, you may buy tortillas instead of sliced bread.



Reality Check

Give an example of a purchase you made because of your ethnic or social group.

people ask family for recommendations on cars, clothing, and furniture. They will also ask for recommendations of services, such as doctors, auto mechanics, restaurants, and hotels.



Reality Check

Give an example of a purchase that was influenced by a family member.

Family

Family is one of the major influences on a person's life. The adults in a family, particularly parents and grandparents, pass on their values, religion, and behaviors to their children.

Your family is a major influence on your buying behavior. You learn how to be a consumer from your parents, siblings, and other family members. Children often buy the same brands that their parents do. For example, suppose your family always buys Crest toothpaste. It is quite likely that you will always buy Crest toothpaste. In addition, many people ask family members for product recommendations. For example,

Friends and Coworkers

Another major influence on your buying behavior is the people you interact with outside your family, 17-5. The primary influence comes from your friends. It also comes from your classmates, coworkers, members of groups you belong to (such as clubs and religious groups), and the media. Friends and coworkers are very influential because of the human need for acceptance and esteem. Often, buying the right car or clothing gives a person a feeling of belonging and prestige.



17.5

The people you interact with also influence your buying behavior.

People often ask friends and coworkers for buying recommendations. In addition, people often talk about the products and services they have bought. **Word-of-mouth publicity** is the informal conversation people have about their experience with a business and its products. For example, when people have a great meal at a restaurant, they tend to tell their friends and family about it. When people have a bad experience with a business, they also tend to tell family and friends about it. Word-of-mouth publicity often affects buying decisions.

A **reference group** is a group of people who influence a consumer's buying decisions. A person may have different reference groups for different types of purchases. A person may be unaware of

who the reference group is. For example, for many people, the people in their neighborhood are their reference group. Alternatively, a consumer may consciously choose a reference group. For example, suppose a person grew up in a working class neighborhood but wants to become part of the upper class. That person could choose the upper class as a reference group.

Peer pressure is the social influence that comes from the people your age with whom you interact daily. Peer pressure can be a strong influence on many kinds of decisions, including buying decisions. Peer pressure can be a strong influence because most people have strong needs to fit in and be accepted by their peer group.



Reality Check

Give an example of a purchase that was influenced by your friends.

Situational Influences

Situational influences are influences that come from the environment. Situational influences include the weather, the physical location of the store, the time of day, and the visibility of advertising and other promotions. The buyer's mood, physical condition, and financial condition at the time of potential purchase are also situational influences. For example, you need more computer paper, but it is raining and you do not have transportation. You decide to put off buying the computer paper.



Reality Check

Give an example in which situational influences caused you to buy or not to buy something.

The Consumer Decision Process

How does a consumer actually make a decision to buy a product? Marketers think that many consumers use a six-step decision-making process:

1. Awareness of need or problem
2. Information search
3. Evaluation of options
4. Decision to buy
5. Purchase
6. Post-purchase evaluation

Have you ever noticed that it often takes longer to buy a pair of athletic shoes than

it does to buy a tube of toothpaste? Some purchases require more research and thought than others. There are four levels of purchase decisions: (1) impulse, (2) routine, (3) limited, and (4) extensive. The levels go from decisions involving no research or thought to decisions involving a great deal of research and thought.

Impulse

You are waiting in the checkout line in a grocery store. On the counter is a display of key chains, including one with your name on it. You get it from the rack and put it in your cart without giving it a second thought. You did not consciously plan to buy it, but the urge to buy suddenly became powerful. You did not use any decision-making processes to make the key chain purchase. A purchase decision made with no planning or research is called an **impulse purchase**. Marketers often place product displays near a checkout counter to encourage impulse purchases.

Routine

Think about the way you buy toothpaste. You probably do not think about the buying decision very much. You go into the store, locate the brand you use, and buy it. A **routine buying decision** is one that is made quickly and without much thought. Routine buying decisions are made when the consumer has experience with the product or has established brand loyalty. Products purchased routinely include groceries, snacks, cosmetics, household cleaning products, and other inexpensive items, 17-6. Sometimes, more expensive items can be purchased in a routine way. For example, if you always buy a specific brand and size of running shoes, your decision to buy running shoes is a routine decision. Similarly, if a person always buys the same brand and style of car, buying a car is a routine decision for that person.



17-6

A routine buying decision is made quickly and without much thought. Grocery items are often bought routinely.

Limited

Suppose you need to buy a coffeemaker for the school store. You have never bought one before. It is not an extremely expensive purchase, but you want to buy the best coffeemaker for your needs. You research coffeemakers in the library, using the *Consumer Reports* magazine. You also go on the Internet. You visit a local appliance store and a restaurant supply store. You list your options, their features, and their costs. You make a decision. You went through a limited decision-making process. **Limited decision making** is one that is made with some research and planning.

Extensive

Imagine that you are ready to buy your first car. This purchase will have a major impact on your daily life, safety, and finances. You will analyze your budget to determine what you can afford. You may have to start planning this purchase a year or more before you make it so that you can save a down payment. You will research and decide the type of car you want. You will visit many car dealers and test-drive many cars. If you decide on a used car, you will have a mechanic examine it. You will also have to research and purchase auto insurance. The process just described is an example of extensive decision making. **Extensive decision making** involves a great deal of research and planning.

The type of decision-making process varies both with the consumer and with the product. Large, expensive products tend to require extensive decision making. Smaller, less expensive products tend to require limited or routine decision making. Some consumers tend to use extensive decision making more than others. Often, consumers will use extensive decision making for their first purchase of a certain product; then they will use routine decision making for subsequent purchases of the same product.



Reality Check

Give examples of impulse, routine, limited, and extensive buying decisions.

CHAPTER 17 REVIEW

Remember This

- Psychological, social, and situational influences affect consumer buying behavior.
- When a need is not satisfied, it turns into a drive. A drive is the internal push that results in action to satisfy the need.
- Maslow's hierarchy of needs is as follows: physical, safety, social, acceptance, esteem, and self-actualization.
- Marketers use human needs to develop products and promotions.
- Buying motives can be classified in the following categories: physical, psychological, rational, emotional, product, and patronage.
- Consumers often use a six-step process to make buying decisions.
- The four levels of consumer buying decisions are as follows: (1) impulse, (2) routine, (3) limited, and (4) extensive.

Review Concepts

1. Give an example of each of the three categories of influences on consumers.
2. According to psychologists, what is the difference between a need and a want?
3. What is the relationship among a need, a drive, and a motive?
4. Describe ideas on which Maslow based his hierarchy of needs.
5. Why are marketers interested in Maslow's ideas?

6. You follow the suggestion of your cousin on which computer to buy. What category of influence is this?
7. How might family influence buying decisions?
8. You always shop at the same local grocery store. What type of buying motive would that be?
9. List the six steps in the consumer decision process
10. At the checkout counter, you see a magazine. Before you know it, you are paying for the magazine. What level of purchase decision would you have just made?
11. You regularly buy the same brands of milk, bread, and peanut butter. Which level of purchase decision is this?
12. What is the difference between limited decision making and extensive decision making?

Think Critically

1. Do you agree with Maslow's hierarchy? Give your reasons.
2. Give three examples of needs that turn into wants.
3. Imagine that you need and want to buy a car. Describe all the buying motives that might influence your purchase. Refer to Figure 17-4.
4. Who is your reference group for clothing purchases?

CHAPTER 17 REVIEW

5. Have you ever bought anything based on word-of-mouth publicity? Give an example from your experience or from an experience of someone you have observed.
6. Name an expensive item that you would like to buy. Using the six steps of the consumer decision-making process, describe how you would use each step in making this purchase.

Connect to Business

1. Cut out several ads from newspapers and magazines. Identify the buying motives to which each ad appeals. Make a poster of the ads and buying motives.
2. Visit a retail business that carries a variety of products, such as a grocery or department store. Observe the products and the signage promoting them. Make a chart of Maslow's Hierarchy of Needs, with extra space to write. For each level in the chart, list the products available in that store that would meet the needs in each level.

Explore Careers

1. Psychologists study the human mind and behavior. Read about careers in psychology in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What kinds of work do psychologists do for businesses? Use library resources or the Internet to search for information on psychologists who have careers in marketing and business. Then visit the Web site of the American

Psychological Association (www.apa.org). How could this association help you in your career as a psychologist?

2. Much of the information used to determine consumer behavior is gathered by marketing research interviewers. Use your local newspaper, the library, or the Internet to search for marketing research interviewing jobs. Select a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Visit the Web site of the Food & Brand Lab of the University of Illinois (www.consumerpsychology.net). What is the purpose of the Food & Brand Lab? Who founded it and what is his educational background? Browse the Web site. Choose one research finding. Describe the research finding, how it was discovered, and how marketers can use it.
2. Use a search engine to find articles on the topic "emotional buying motives" or "Maslow's Hierarchy of Needs." Select two of these articles. Write a brief summary of each and explain how the information can help marketers.
3. Find the Web site of a company that sells consumer goods. Print the home page. Analyze the Web site in terms of how it appeals to consumers' psychological and social needs. Use Maslow's Hierarchy in your analysis.

Marketing Terms

organizational buyer

supplier

vendor

purchaser

purchasing agent

buyer

bid

straight rebuy decision

modified rebuy decision

new task decision

After studying this chapter, you will be able to

- describe three variables used to segment the business market.
- explain why the business buying process is more complex than the consumer buying process.
- compare the three levels of business buying decisions with the levels of consumer buying decisions.
- identify three types of influences on business buying behavior.

The business market is similar to the consumer market, yet different in some ways. Businesses have wants and needs that they satisfy by buying products. They need to buy products, services, and ideas. Marketers segment the business market and then choose a target market. Marketers to the business market need to understand the business buying process. They also need to understand the influences on business buyers.

What Do Businesses Buy?

Businesses buy a wide variety of goods and services, depending on the type of business, 18-1. As you learned in Chapter 4, the business market is also called B2B, and consists of businesses selling products to



18-1

This construction business buys drills and other heavy equipment.

other businesses. The business market can be grouped into the four categories that you learned about in Chapter 4: (1) producers, (2) resellers, (3) government, and (4) institutions.

Producers buy raw materials and equipment, which they use to make products and components. Resellers buy finished products to sell (or “resell”) to consumers. Producers and resellers may buy distribution and warehousing services. Government includes national, state, city and local governments; they buy a wide variety of products, from airplanes to zucchini. Governments also buy services,

such as education and medical care. Institutions include public and private schools, hospitals, museums, and nonprofit organizations. Institutions also buy a wide variety of products. In addition, most business customers buy products for running the business, such as desks and chairs, computers, and telephone service.



Reality Check

Look around your school. Make a list of 10 products that your school buys. Guess the quantities of each product purchased.

Segmenting the Business Market

The most common segmentation variables used for the business market are (1) type of business, (2) customer size, and (3) product use.

Type of Business

Businesses of different types have different needs. There are many ways to organize or define types of businesses. One way is the four broad categories mentioned at the beginning of this chapter: producers, resellers, government, and institutions.

Most marketers find that the broad categories are not that helpful. They use a system called the North American Industry Classification System (NAICS). The NAICS is a system to categorize industries. It was developed jointly by the governments of the United States, Canada, and Mexico. NAICS organizes and defines businesses so that each business can be placed in a specific category. Then statistics about each type of business can be compared.

Figure 18-2 lists the major industrial categories in the NAICS. Each major NAICS

North American Industry Classification System (NAICS): 20 Major Categories

Accommodation and Food Services
 Administrative and Support and Waste Management and Remediation Services
 Agriculture, Forestry, Fishing and Hunting
 Arts, Entertainment, and Recreation
 Construction
 Education Services
 Finance and Insurance
 Health Care and Social Assistance
 Information
 Management of Companies and Enterprises
 Manufacturing
 Mining
 Other Services (except Public Administration)
 Professional, Scientific, and Technical Services
 Public Administration
 Real Estate and Rental and Leasing
 Retail Trade
 Transportation and Warehousing
 Utilities
 Wholesale Trade

18-2

The North American Industry Classification System (NAICS) is a way to categorize businesses.

category is subdivided into smaller, more specific categories. Many business-to-business marketers use NAICS to segment their markets. More information on the NAICS is available through the U.S. Census Bureau.



Reality Check

List five businesses in your community. Which broad category is each one in? Which major NAICS category is each one in?

Customer Size

Large businesses often have different needs from small businesses. Therefore, business marketers often find it useful to segment their markets based on the size of their customers.

There are many ways to determine the size of a business. The size can be based on annual sales, number of employees, number of offices, or number of customers served. For example, suppose you sell cleaning products. A business customer such as Wal-Mart, which has over 3,200 stores across the United States, has very different needs from the single, independent hardware store in your neighborhood. The main difference is that Wal-Mart will need a huge number of each item, and a system to distribute the item to each of its 3,200 stores. The small hardware store may need only a dozen of the item.

Product Use

Business customers also vary in the way they use products, especially raw materials. For example, the market for steel is quite large. However, different customers use the steel in different ways. Here are four of the many uses of steel: structural beams, automobile bodies, kitchen appliances, and cans for food. Steel manufacturers often find it useful to segment their customers into groups based on their use of the steel. Figure 18-3 summarizes three ways to segment the business market.

Segmentation Variables for the Business Market

Variable	Example
Type of business	• Producer/reseller/government/institution • North American Industry Classification System (NAICS)
Customer size	• Independent store • Chains over 100 stores
Product use	• Structural beams/auto-mobiles/appliances/cans

18-3

Business marketers use different variables to segment the market.

The Business Buying Decision

In Chapter 4, you learned that the term *organization* is another term for *business*. A person who buys products for a business is often called an **organizational buyer**. A business that sells to organizational buyers is usually called a **supplier** or a **vendor**.

There are two types of organizational buyers: purchasers and buyers. In general, a **purchaser** buys goods and services for use within the company. Some companies have purchasing departments. These departments are staffed with purchasing agents. **Purchasing agent** is another term for *purchaser*. Purchasing agents often need technical knowledge. For example, a purchasing agent for a manufacturing company must know a great deal about the raw materials and equipment needed. Purchasing agents research where to get the best products at the best prices. The process of purchasing is sometimes called *procurement*.

A **buyer** buys items for resale, 18-4.

However, sometimes the terms *purchaser* and *buyer* are used interchangeably. The buyer in a retail business is very important. His or her decisions about which goods to purchase have a major effect on the success of the business. Other terms used for buyer are *professional buyer*, *retail buyer*, and *merchandise manager*.

It is not always obvious who makes the buying decision in an organization. There is usually more than one person involved. Even when one person makes the final decision, that person may have had to get approval from other people in the organization. Sometimes the people who influence the decision are obvious, such as the president of the company or the board of directors. Sometimes, they are not obvious. For example, the secretaries may determine which type of computer is purchased because they are the ones who use them.



18-4

The buyer in a retail business decides which goods to buy for resale.

The Business Decision Process

Business buyers go through the same basic decision process as consumers. However, the business buying process is more complex, 18-5. The following aspects make it more complex:

- There are usually more people involved in each decision.
- The quantities of products purchased and total amounts paid are usually large.
- There is often a formal bidding process. A bidding process requires the vendor to submit a bid. A **bid** is a formal written proposal that lists all the goods and services that will be provided, their prices, and the timeline.
- Often, the organizational buyer is required to obtain two or more bids.

The buyer must then compare the bids and choose the best one. Analyzing and comparing the bids can take a long time.

- Decisions must often receive written approval from more than one person.
- There often is a formal process for payment request and approval.

Choosing the best bid can in itself be a complex process. It is not automatic to choose the bid with the lowest price. A bid often includes a combination of goods and services. The buyer will choose the bid that provides the best combination of goods and services for the best price.

The buying business (buyer) and its supplier often develop a partnership type of relationship. The buyer needs the supplier's products in order to be successful. The supplier needs the buyer as a customer in order to be successful. It is in the interest of both to help each other be successful. For

Consumer vs. Business Decision Process	
Consumer	Business
Awareness of need or problem	Awareness of need or problem A written description of the product is developed
Information search	Information search Bids requested
Evaluation of options	Evaluation of bids
Decision to buy	Decision to buy Approvals obtained Negotiations with vendor
Purchase	Order submitted Product received Payment processed
Post-purchase evaluation	Post-purchase evaluation

18-5

The basic decision process is the same for consumers and businesses; however, the business process is more complex.

example, a restaurant's coffeemaker broke at 5 a.m., right before the busy morning rush. The supplier of the coffeemaker brought a new one to the restaurant by 5:30. The supplier stayed and worked at the restaurant to help it catch up with the customers' demands for coffee.

Levels of Buying Decisions

The business buying process has three levels of purchase decisions, similar to three of the levels in the consumer market presented in Chapter 17. There is no acknowledged equivalent of impulse buying in the business market.

Straight Rebuy

Many businesses need to purchase the same items on a regular basis. For example, a restaurant is satisfied with the dishwashing solution that it uses. The restaurant will buy the same dishwashing solution from the same vendor. A **straight rebuy decision** is a decision that requires little research and thought. Straight rebuy decisions occur when the buyer is satisfied with the product and terms of sale. Such decisions are similar to the consumer's routine decision.

Modified Rebuy

Often something occurs to make a buyer less satisfied with a product he or she has been using. For example, the restaurant owner may have read about a new dishwashing solution that is supposed to be better than the one she is currently using. Instead of a straight rebuy, the owner will investigate new dishwashing solutions and new vendors. This situation is a modified rebuy. A **modified rebuy decision** is a decision to buy a familiar product but to research other vendors or slightly different

products. Common reasons to switch to a modified rebuy include (1) the current supplier is no longer meeting needs, especially for timely delivery of products, (2) need for better products, and (3) need for better prices. The modified rebuy decision is similar to the consumer's limited decision.

New Task

Businesses often need to buy products for the first time or products to solve a unique problem. For example, the restaurant has been washing dishes by hand. The owner decides that she needs to buy an automated dishwasher. This purchase will require a great deal of research. This situation is a new task decision. A **new task decision** is a decision to buy a new product; this type of decision requires a great deal of research and thought, 18-6. Such decisions are similar to the consumer's extensive decision.



18-6

New task decisions require a considerable amount of research and thought.

Influences on Business Buyers

Business buyers are usually motivated by obvious needs in their organizations. However, there are many influences on the final buying decision, just as there are many influences on consumer buying decisions. These influences can be grouped into three categories: (1) internal, (2) external, and (3) situational. These influences are similar to the three influences on consumers: psychological (internal), social (external), and situational.

Internal

Internal influences are influences that come from within the business itself. Internal influences include the structure of the company, its goals, and the people in power. For example, one company might have a president who is eager to try new things. That company will be willing to try new vendors or develop new products. Another

company might have a president who prefers the way that things have always been done. That president is less likely to approve the purchase of new products from new vendors.

External

External influences are influences from outside the company. External influences include competition, technology, and trends. For example, if the competition comes out with a new product, a business might decide to develop a new product. A business that is developing new products will need new goods and services.

Situational

Situational influences are influences from the environment in which the business exists. Situational influences include the economy, the political environment, and the regulatory situation. For example, if the economy is strong, a business might be more likely to expand. An expanding business will buy more goods and services.

CHAPTER 18 REVIEW

Remember This

- Businesses have wants and needs that they satisfy by buying products.
- Business marketers segment the business market and then choose a target market.
- The organizational buying process is more complex than the consumer buying process.
- Businesses have three levels of buying decisions: (1) straight rebuy, (2) modified rebuy, and (3) new task.
- Influences on business buyers include (1) internal, (2) external, and (3) situational.

Review Concepts

1. List the four broad categories of businesses and give an example of a good and a service that each one might buy.
2. List the three most common segmentation variables used for the business market.
3. What is the NAICS?
4. What is the difference between a buyer and a purchaser?
5. Why would a purchaser request two or more bids?
6. What are the main differences between the consumer decision process and the business decision process for buying products?
7. A business buys the same items from the same vendors on a regular basis. What level of buying decision is occurring?
8. Give an example of a modified rebuy decision.
9. Why might a business switch from a straight rebuy to a modified rebuy?
10. Under what circumstances might a business make a new task decision?
11. List the three categories of influences on business buyers and give an example for each.

Think Critically

1. Why might a business supplier want to categorize potential customers based on NAICS?
2. Imagine that you are a supplier of cleaning supplies. Why might you want to restrict your customers to small businesses?
3. Why is the business buying decision process more complex than the consumer buying decision process?
4. Give an example of a bid.
5. Your school buys many products. List three items that are probably straight rebuys. List two items that are probably modified rebuys. List one item that was probably a new task decision. If your school has not made a new task decision recently, list one item that you think your school should buy that would require a new task decision.
6. Why might a supplier develop a partnership type relationship with its customers?

Connect to Business

1. Talk with the manager at your workstation, your school cafeteria, or the owner or manager of a local business or store department. Which suppliers or vendors do they use? How did they choose which vendors to use? What kinds of problems have they had with vendors?
2. Talk with the manager at your workstation, your school cafeteria, or the owner or manager of a local business or store department. Find out the process that must be followed to buy something. How many bids must be obtained? Who must approve the purchase? How many written approvals or signatures must be obtained? What is the process for requesting payment and getting it approved?

Explore Careers

1. Read the article, "Purchasing Managers, Buyers, and Purchasing Agents" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Then visit the Web site of the American Purchasing Society (www.American-purchasing.com). How can this association help you become a better purchasing professional? Click on the "Career Center" link. Browse through the job listings. Choose the job that appeals to you the most. What does a person in this job do? Why does the job appeal to you?

2. Governments purchase large quantities of goods and services. People who buy products for governments are called public purchasing professionals. Visit the Web site of the National Institute of Government Purchasing (www.nigp.org). What is the purpose of NIGP? In which parts of marketing are members of NIGP interested? How does NIGP help public purchasers do a better job? Describe the professional development program.

Connect to the Internet

1. Visit the corporate Web site of a large corporation that sells to consumers. Find the information for suppliers. For example, visit the Web site of Wal-Mart (www.walmart.com). Click on the "Company Information" link. You will see further information and a list of links. Click on the link "Supplier Information." Imagine that you are the president of a company that wants to supply its products to this corporation. Write a plan, based on the supplier information provided on the Web site. Describe what you would do to get the corporation to use you as a supplier.
2. Imagine that you are the purchasing agent for a business. You need to find a source for a business product. Name the type of business and the product you need, for example, an accounting business and computer paper. Use the Internet to research and find a source for that product.

Marketing Terms

competitor
monopoly
direct competitors
competitive edge
price competition
nonprice competition
market share
market size
market share leaders
competition grid

After studying this chapter,
you will be able to

- describe a monopoly.
- give an example of three direct competitors.
- give an example that shows how to calculate market share.
- explain why market share is important.
- explain how to use a competition grid.

As you learned in Chapter 8, *competition* is the contest between two or more businesses for customers. A **competitor** is one of the businesses that compete for customers, 19-1. What is the opposite of competition? Monopoly. A **monopoly** is the exclusive control of a product by one company.

Monopoly vs. Competition

Suppose that you are thirsty. You go to a convenience store and examine the contents of the soft drink cooler. Imagine if there were only one soft drink company, named the One Company. It decides to make only one kind of soft drink, One Cola. No other companies make or sell soft drinks. You have no choice. If you want a soft drink, you have to buy One Cola, at the price and at the place that



Photo by Jack Klasey

19-1

These lodging businesses, all located in the same business park, compete for customers.

the One Company decides. The situation just described is a monopoly.

Now think of an actual convenience store. What is in the cooler? You will see more than a dozen different soft drinks, produced by half a dozen different

companies. You, as a customer, have choice. The soft drink companies compete for your consumer dollars. Each company tries to make its products meet your needs, so that you will buy its product and not someone else's. This situation is competition.



Reality Check

Describe a situation of competition and one of monopoly from your life.

Competition in a Market Economy

Competition is a key element of a market economy. In a competitive market, businesses compete against each other for customers. No one business can control the prices. Each competitor works to make its products more appealing to customers. As a result, consumers get better products. In a monopoly, there is no competition. One company, the monopoly, is in control of all the products in that market. The monopoly does not have to compete with other businesses for customers, so a monopoly does whatever it wants with price. It can even make inferior products to make more money. A monopoly also has no motivation to improve its products, since it is the only source.

In a command economy, the government acts as a monopoly. The government controls what will be produced and the prices. Businesses in a command economy do not compete for customers. Some economists think that part of the reason that command economies are not successful is the lack of competition. Competition motivates businesses to improve their products and services.

The United States is a mixed market^{*} economy. In the 1800s, the U.S. government did little to regulate businesses. As a result, leaders in a variety of industries worked to create monopolies. For example, in the railroad and petroleum industries, the leaders worked to eliminate competition, set prices, and control distribution. These leaders totally controlled their industries. The U.S. government then realized that

monopolies interfere with the efficient workings of a market economy. As a result, federal and state antitrust laws were passed. (A trust is a type of monopoly.)

The goal of antitrust laws is to make sure that markets are competitive. The Sherman Antitrust Act of 1890 was used in 1911 to end the Standard Oil Company's control of the oil industry. As a result, Standard Oil was separated into 30 competing companies. Certain public utilities were allowed to remain as monopolies, for example, electric, natural gas, and telephone, 19-2. However, the U.S. government has determined that allowing monopolies in these utilities was interfering with competition. In 1974, the U.S. government sued AT&T for anticompetitive practices, and broke up this large corporation. In more recent years, monopolies in the electric industry and the computer industry were required to become competitive.

In consumer markets, antitrust laws prevent one company from buying up all the companies in the same business. For example, if one company decided to buy all the competing athletic shoe companies, that



19-2

Electricity, natural gas, and telephone services were legal monopolies for many years.

one company would become a monopoly. Antitrust laws prevent this from happening. For more information on antitrust laws, see Chapter 32.

Direct Competitors

In some sense, all consumer businesses compete with each other for the customers' money. For example, suppose you have \$100 to spend. You could buy concert tickets, sports equipment, clothing, or any of hundreds of other products. The concert, sports equipment, clothing, and other businesses compete indirectly with each other.

However, on a practical level, most marketers are concerned with direct competitors. **Direct competitors** are businesses that sell similar products. For example, McDonald's, Burger King, and Wendy's are direct competitors. They all sell fast food, specializing in hamburgers. Products are also considered to be direct competitors. For example, in the cola soft drink category, Coke, Pepsi, RC Cola, and Shasta Cola, all compete for cola drinkers. Services can also directly compete. The hotels in Figure 19-1 are all direct competitors.



Reality Check

Think of a product you buy often. Name that product. Then name as many direct competitors for that product as you can.

Ways to Compete

Marketers decide the product, place, price, and promotion of each product that a firm offers. In order to win the competition against other firms offering the same products, each marketer chooses one or more aspects of a product to emphasize. The

special feature or aspect of a product that makes it different from and better than the others is called its **competitive edge**, 19-3. For example, the competitive edge of Häagen Dazs ice cream is its premium quality. The competitive edge of a store brand ice cream is its low price.

Many different aspects or features of a product can be used as the basis for competing. There are two major bases for competition: price and nonprice.

Price Competition

Competing on the basis of price is called **price competition**. For these businesses, the focus of the business is to make the most profit by offering the lowest prices. The business and marketing functions work toward finding the least costly way to produce and market products, so that the business can offer its products at the lowest prices. These businesses also focus their promotion efforts on their low prices. For example, Wal-Mart stores advertise as "Always low prices. Always."



19-3

A special feature that distinguishes a product from similar products is often called the competitive edge. For some ice creams, premium quality is the competitive edge.

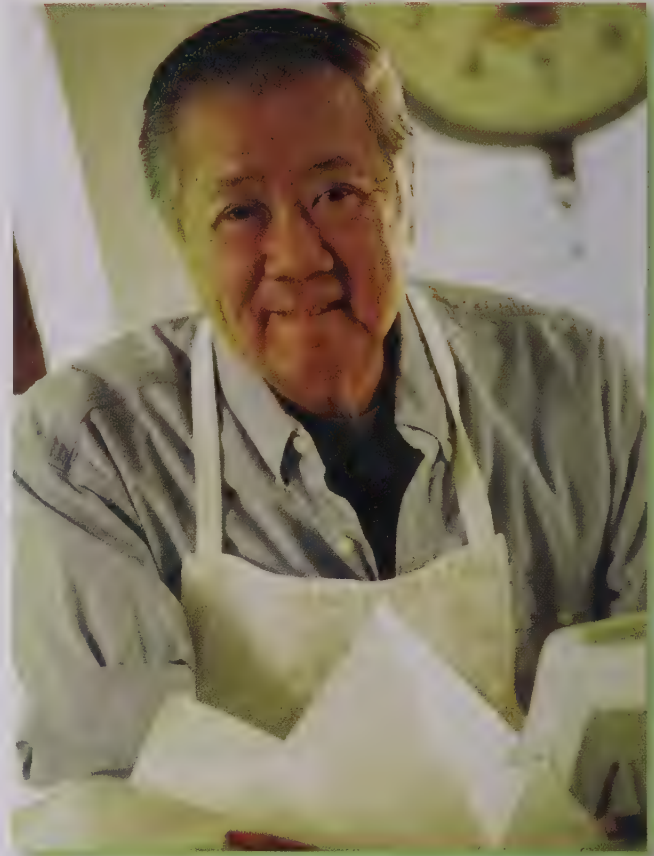
Nonprice Competition

Although price is an important element of every marketing mix, many marketers choose to compete on the basis of the other Ps. Many companies, especially smaller ones, find that they cannot compete based on price. A very large company can often manufacture or offer products more cheaply than a smaller company can. As a result, smaller companies often must compete on the basis of the other Ps. Some companies choose to have a quality image. The products of these companies cost more, but the customers are paying for added features that they want.

Competition that is based on something other than price is called **nonprice competition**. These businesses develop strengths in their products that are not based on price. These strengths are based on product, place, or promotion.

- **Product.** Product-based competition is based on elements such as quality, features, benefits, color, size, and so on. For example, Coach purses and Mercedes-Benz cars focus on quality.
- **Place.** Place-based competition is based on elements such as convenient location of the business and the hours the business is open. For example, a convenience store may advertise that it is open 24 hours a day, seven days a week.
- **Promotion.** Promotion-based competition includes competition based on advertising, visual merchandising, store environment, and customer service, 19-4. Many businesses focus on their customer service as their major competitive edge. For example, Nordstrom (the department store) is known for its exceptional customer service.

Whether a business competes based on price or nonprice elements, the basis of competition is most visible in the business's advertising and related promotional activities.



19-4

Many small stores promote personalized customer service as their competitive edge.



Reality Check

Name a store that you know that competes on price. Name another store that competes on a nonprice basis. On what basis does the second store compete?

Market Share

How can a business tell how well it is doing compared with its competitors? One way is to look at market share. **Market share** is one competitor's percentage of the total sales in a specific market.

Market share is determined based on the size of the market. **Market size** is the

total sales per year for a specific product. Sales can be measured in a variety of ways. A common way to measure sales is in terms of the value of products sold, expressed in dollars. Another way to measure the size of sales is in terms of the number of items sold. The formula for calculating market share is as follows:

$$\frac{\text{Company Sales}}{\text{Total Sales in Market}} \times 100 = \text{Percent Market Share}$$

For example, suppose the market size for a snack product is \$100 million. That is, each year, the total sales of the snack product is \$100 million. Three companies make this snack product. The Big Company sells \$75 million of the snack each year. Its market share is 75 percent. The Small Company sells \$5 million. Its market share is 5 percent. The Medium Company sells \$20 million. Its market share is 20 percent, 19-5. Market share is useful for comparing the companies with each other. Market share shows the competitive relationship of the companies to each other, 19-6.

How does this work in the beverage industry? The market for carbonated soft drinks is very competitive. The top two companies, Coca-Cola and PepsiCo, are in a constant battle for more market share. Between the two of them, they have over 75 percent of the carbonated soft drink business, 19-7. Notice that the size of the carbonated soft drink market is measured in millions of 192-ounce cases sold.

How To Find Market Data

Many trade associations collect market size and market share information. Trade associations often publish market information in their own publications or Web sites. Market information is also available from industry publications. *Industry*

Calculating Market Share

Formula

$$\frac{\text{Company Sales}}{\text{Total Sales in Market}} \times 100 = \text{Percent Market Share}$$

Data

Total Sales in Market = \$100 million

Big Company Sales = \$75 million

Medium Company Sales = \$20 million

Small Company Sales = \$5 million

Big Company

$$\frac{\$75 \text{ million}}{\$100 \text{ million}} \times 100 = 75\%$$

Medium Company

$$\frac{\$20 \text{ million}}{\$100 \text{ million}} \times 100 = 20\%$$

Small Company

$$\frac{\$5 \text{ million}}{\$100 \text{ million}} \times 100 = 5\%$$

19-5

This simplified example shows how market share is calculated.

publications are magazines and newsletters that focus on a specific industry. These publications are available at public libraries or at the publication's Web site. For example, the data on soft drink markets are from the Web site for *Beverage Digest* (www.beverage-digest.com).

Why Is Market Share Important?

Market share is an easy way to evaluate the success of a business. If market share increases, the business is usually succeeding. If market share falls, the business may be in trouble. Market share is also a way of

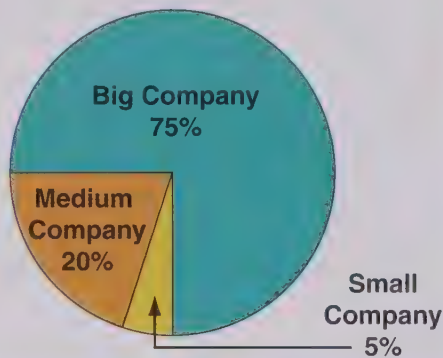
Comparison of Market Share

Table

Market Share of Snack Companies			
Rank	Company	Annual Sales	Market Share
1	Big	\$75 million	75%
2	Medium	\$20 million	20%
3	Little	\$5 million	5%
	Total (market size)	\$100 million	100%

Pie Chart

Market Share of Snack Companies



10-6

Market share information can be displayed in tables or charts to show the competitive relationship of companies.

knowing where a business stands in relation to its competitors.

Market share leaders are the companies with the largest market shares. For example, Coca-Cola Co., PepsiCo, and Cadbury-Schweppes are the soft drink market share leaders. Among the three of them, they have almost 90 percent of the soft drink market. Some research shows that market share leaders are more profitable and successful than companies with smaller market shares. The goal of many companies is to increase their market share.

Market share may not be as important for smaller businesses. In many markets, the market share leaders control 70 percent or more of the market. The remaining competitors usually do not have the resources to become a market share leader. These smaller businesses often define success in terms other than market share, 19-8. As long as these businesses are meeting their business, financial, marketing, and personal goals, they consider themselves to be successful.



Reality Check

Think of another industry in which the competition for market share and market leadership is similar to the competition in the soft drink industry. Which companies are probably the market share leaders?

Competition Research

In addition to market share, you need to know about your competitors' marketing mix. You need to know what products your competitors are selling, the benefits and features of their products, the prices and promotions, and the location and distribution of their products (place).

Consider the idea of selling bagels at the school store. Assume that you have done some customer research, and you know that students like bagels and are willing to buy them at the school store. Before you decide exactly what to sell and how much to charge, you need to study your competition. Who else sells bagels and other snack food? How much do they charge? Where are the competitors located? When are they open? The best way to collect and compare this information is on a competition grid.

A **competition grid** is a chart used for recording information about competitors. The competitors' names are listed along one

Market Share in the Carbonated Soft Drink Industry, 2003

Rank	Company	Market Share (%)	Million Cases Sold (192-oz. case)
1	Coca-Cola Co.	44.0	4459.8
2	PepsiCo	31.8	3227.7
3	Cadbury-Schweppes*	14.3	1452.1
4	Cott Corp.	4.7	477.9
5	National Beverage	2.4	244.0
6	Big Red	0.4	41.7
7	Red Bull	0.2	20.7
8	Hansen Natural	0.1	12.9
9	Monarch Co.	0.1	9.1
10	Carolina Beverage	<0.1	5.3
	Private label/other	2.0	191.7
	Total Industry	100.0	10,142.9

*Cadbury-Schweppes makes 7 UP and Dr Pepper.

Source: www.beverage-digest.com/pdf/2003_top-10_CSD.pdf

19-7

The carbonated soft drink industry is very competitive. The top two or three companies are always battling for more market share.



19-8

Small businesses usually do not define their success in terms of market share. If they meet their business, financial, marketing, and personal goals, they consider themselves successful.

edge, and the data you wish to compare is listed along the other edge. You write the information about competitors on this grid. A competition grid can be customized to meet your needs. For some complex products, you may need more than one grid, for example, one grid to compare product features, another grid for product benefits, and another grid for prices.

For example, within a three-block radius of the school are the Donut Shop, the Bagel Store, and the Coffee Cafe. These are your direct competitors. You need to know what kinds of bagels they sell, how much they charge, and when they are open, 19-9.

Once you have all the information you want to compare, you can study your competition grid. You can analyze this information to determine your competitors' strengths and weaknesses. You can then use this information to decide what your

Competition Grid for Bagels at the School Store

Bagel Types	Donut Shop	Bagel Store	Coffee Cafe
Plain	Yes	Yes	No
Raisin	Yes	Yes	No
Wheat	No	Yes	No
Other	No	8 other types	No
Cream Cheese	Yes	Yes	No
Sandwich style	No	Yes	No
Packets	No	No	No
Little tubs	Yes	No	No
Butter	Yes	Yes	No
Price			
Bagel	\$0.69	\$0.65	—
With cream cheese	\$1.39	\$1.79	—
With butter	\$0.89	\$0.96	—
Hours	8 am – 10 pm	6 am – 6 pm	7 am – 11 pm

19-9

A competition grid can help you decide the best way to compete with your competitors and how to distinguish yourself from them.

marketing mix will be. You can use this information to decide how you will position your products in comparison with the competition.

In this case, you can see right away that the Coffee Cafe does not sell bagels. Their focus is coffee. The Bagel Store specializes in bagels and has the widest choice of flavors. It is also the most expensive. The Donut Shop carries some bagels, but their main focus is their donuts.

Now that you have an understanding of your competition, you can decide how best to compete with them. You might decide that your focus will be convenience and price. You can now work on developing your marketing mix to achieve that focus.

Keep in mind that the competitive situation is always changing. For example, the Coffee Cafe might decide to add

bagels to its offerings. The Donut Shop might offer a special deal that makes coffee and a bagel much less expensive than yours. It is not enough to research your competition just before you launch your business. You should keep a file on all your direct competitors, and add information as it becomes available. You need to know what your competition is doing at all times. You then must be flexible and change your marketing strategy based on new information.



Reality Check

Based on this competition grid, what would your product and price decisions be for bagels in the school store?

CHAPTER 19 REVIEW

Remember This

- A monopoly is the exclusive control of a product by one company.
- Direct competitors are businesses that sell similar products.
- To calculate market share, divide the competitor's annual sales by the market's total annual sales. Then multiply by 100 to convert the decimal to a percent.
- Market share can be used to evaluate the success of a business and to set marketing goals.
- A competition grid is a chart used for recording information about competitors.

Review Concepts

1. Describe a situation that is a monopoly.
2. Why is competition good for the consumer?
3. What is an antitrust law?
4. Name the act that was passed to break up monopolies.
5. Name an industry or type of business; then name three direct competitors in this business.
6. List the two major bases for competition.
7. If a business decides not to compete based on price, describe other ways it can compete.
8. What is the difference between market size and market share?
9. Give the formula for calculating a company's market share.

10. Why is market share important?
11. How is a competition grid used?
12. True or False. Competition research only has to be done before a business is launched. Explain your answer.

Think Critically

1. Identify a monopoly in your community.
2. Why are monopolies not in the best interest of consumers?
3. Why did the U.S. government pass laws that resulted in breaking up monopolies?
4. What does the government do when it recognizes a monopoly?
5. Name two businesses that compete directly. Describe the ways in which they compete. In other words, what do they do to try to win customers away from the other business?
6. Imagine that you are planning a new business. Where could you get information on the market and competition?
7. How does the ability to shop on the Internet affect competition?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. What is the business's market share? Who are the major competitors? How does the business compete with its competitors?

CHAPTER 19 REVIEW

- Find the ads of two businesses that are in direct competition. How is each using its ad to compete for customers?
- Imagine that you are planning to open a sporting goods store in your neighborhood. List all the businesses in a 30-mile radius that would compete directly with you. Include stores with sporting goods departments, such as Wal-Mart and Toys R Us.

Explore Careers

- Visit the Web site of one of the major soft drink companies, such as Coca-Cola, Pepsi, or Cadbury-Schweppes. Find the corporate Web site, and learn about the history and brands. What does the company do about diversity? Browse through the list of jobs currently available in the United States. Would you like to work for this company? Which of the currently available jobs appeal to you? Why?
- Many corporations hire lawyers to help them follow antitrust and other laws. Read the article on lawyers in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Visit the Web site of the American Bar Association (www.abanet.org). How can being a member of this organization help you if you decide to become a lawyer? Click on the link "Career

Resources," then "ABA Career Counsel," then "Lawyer Profiles." Find the list of profiles of antitrust lawyers. Read several of the profiles. List the companies that they work for. Why did they choose antitrust law? Would you like to be a lawyer? Explain your answer.

Connect to the Internet

- Visit the Web site of the Federal Trade Commission (www.ftc.gov). Explore links such as "About FTC," "A Guide to the Federal Trade Commission," and "Antitrust." When and why was the FTC created? What is the purpose of the FTC? Why should marketers know about the FTC? How does the FTC help consumers?
- Visit the Web sites of two businesses that compete directly with each other, such as www.amazon.com and www.barnesandnoble.com. Compare the Web sites. How do these two businesses compete for customers? What is the competitive edge of each?
- How has market share changed over the past five years in the carbonated soft drink industry? Have the market leaders changed? Use the Internet to find this information, starting with the Web site of *Beverage Digest* (www.beverage-digest.com). Write a report that shows what you found.

Marketing Terms

marketing research
primary data
secondary data
secret shopper
interview
focus group
survey
questionnaire
database
industry publication
trade association
chamber of commerce
hypothesis
trend
fad

After studying this chapter,
you will be able to

- list three areas of marketing research.
- describe the two types of data.
- give four examples of ways to get primary data.
- list five sources for secondary data.
- describe how information technology is used in marketing research.
- describe three trends that affect marketing.

According to the marketing concept, the best way to make a profit is to meet customers' needs and wants. You also want to do a better job meeting those needs than your competitors do. So how do you learn about customers' needs and wants? Where do you get information to decide on a target market? How do you learn about the competition? How do you learn about new opportunities to expand the business? The answer to these questions is marketing research. **Marketing research** is the gathering of information to make marketing decisions, 20-1.

**20-1**

Marketing research involves learning about your target market and your competitors so that you can make good marketing decisions. Marketing research often takes place in a mall or shopping center.

Marketing research can range from the very simple and inexpensive to the very complex and costly. Here is an example of simple research. Imagine that you run a small bakery. You have developed a new cookie and want to know if customers will like it. You prepare a plate of the new cookies and offer a free sample to every customer. You ask each customer what he or she thinks of the cookie.

Here is an example of complex research. A large national company has developed a new snack product. Before producing large amounts and selling it across the country, the marketers want to make sure that people will buy it and like it. They decide to test market the product. They will advertise and sell the snack in one city, keep careful track of

how much is purchased, and ask customers their opinions of the snack. They will hire a large marketing research firm to carry out the project for them. The project will take six months to complete.

Marketing research is done in many areas. This chapter will focus on research in three areas: (1) customers, (2) competition, and (3) opportunity. Figure 20-2 gives an overview of these three areas.



Reality Check

Have you ever been part of marketing research? Describe your experience.

Three Areas of Marketing Research

Marketing Research	Purpose	Sample Question
Customer	Learn about customers so that the company can meet customers' needs	What is my customers' favorite snack food?
Competition	Learn about competition so that the company can beat the competition	Does my competitor's product have better features than mine?
Opportunity	Learn about new opportunities so that the company can grow	Which market is growing the fastest?

20-2

The purpose of marketing research is to learn as much as you can about customers, competitors, and opportunities. You will then have the information you need to develop your marketing plans and make marketing decisions.

Types of Data

Information is often called *data*. Data are divided into two categories: primary data and secondary data. **Primary data** are data collected for and about a specific business. For example, when the baker asks his customers whether they like the new cookies, he is collecting primary data. **Secondary data** are data collected for someone else or for nonmarketing reasons, but are available for you to use. In other words, you get secondary data second-hand. For example, the federal government collects data on many topics, including population and businesses. The government is an excellent source of secondary data. Government data are also easily available on the Internet. Secondary data are usually quicker and less expensive to gather than primary data. Because it is usually more expensive and time-consuming to gather primary data, most marketing researchers look for secondary data first. If the information you need already exists, there is no need for you to go through the time and expense of collecting your own data.

Both primary and secondary data can be excellent for use in making marketing

decisions. Whether you use primary data, secondary data, or a combination depends on your needs and resources.

Collecting Primary Data

There are four ways to collect primary data:

- **Observation.** Researcher observes people or process.
- **Interview.** Researcher asks in-depth questions of people.
- **Survey.** Researcher asks questions of a statistically significant number of people.
- **Experiment.** Researcher sets up two situations that differ in only one variable and measures results.

Observation

In the observation method, the researcher watches customers and records their behavior. For example, a marketer wants to know how effective a window display is. A researcher using the observation method might sit in front of the store and observe.

The researcher would count the total number of people who walk by, the number who look at the store's windows, the number who enter the store, and the number who exit with purchases, 20-3. A video camera can also be used, so that the customers do not know that they are being watched.

Another form of observation used by many service companies is the *secret shopper*, also known as the *mystery shopper*. A **secret shopper** is a person hired by a company to visit its place of business and observe the quality of service. The employees do not know that the secret shopper is observing them. The secret shopper then reports back to the company, especially noting any problems that need to be solved.



20-3

Primary data is often collected by observing shoppers and their behavior.

Interview

An **interview** is a formal meeting between two or more people, during which questions are asked of one person. In marketing, interviews are used to gain insight into customers' thoughts, opinions, and reactions to products.

A variation on the interview is the focus group. A **focus group** is a small group of people who discuss topics of interest to a researcher. The discussions are like interactive interviews with a small number of people. The researcher observes and collects information as the members of the focus group exchange ideas. A key component of the focus group is the moderator. The moderator asks questions and focuses the discussion on the topics of interest to the researcher.

Survey

A **survey** is an organized study in which a researcher asks questions of a number of people. A survey can be conducted in person, over the telephone, by mail, or over the Internet, 20-4. The series of questions is called a **questionnaire**. Part of the success of a survey depends on asking the right questions. The questions should not suggest the answers that the researcher wants or be biased in any way.

Another important part of a survey is choosing the people to be in the survey. The idea behind a survey is to ask a small sample of people, who represent a larger group of people. For example, if a television executive wants to know what people think of a new show, it would be ideal to ask everyone who watches TV. However, to ask everyone would be too expensive and time-consuming. The science of statistics has shown that if you scientifically choose a small number of people, you can generalize their answers to a larger population. Many national surveys use 1,000 people to get useful information

**20-4**

A survey is another way to collect primary information. Telemarketers often perform surveys.

about national attitudes and opinions. The professionals who work in choosing samples and analyzing results are statisticians and marketing researchers.

Many groups use a more informal method of doing a survey. They do not scientifically choose the people to survey. The results from such surveys may not be “scientifically valid”; however, they can provide useful information.

Experiment

In the experiment method, the researcher sets up an actual experiment and compares the results. For example, the researcher might take a count of passersby and the number who enter the store, as in the observation method. Then the store will change the window display. The researcher will again count the passersby and the number who enter the store. After these data are collected, the researcher would analyze the data to determine whether the change in window display had any effect on whether the passersby entered the store. Taste tests are also common experiments. Often, researchers will use a combination of observation, survey, and experiment to get the most valid data to make decisions.

Who Collects Primary Data?

You can collect data yourself, or you can hire a marketing research firm to collect the data for you. Businesses often collect marketing data themselves. Over 50 percent of the manufacturers of consumer and business products have their own formal marketing research departments.

Businesses can also hire a marketing research firm to collect the data for them. Businesses hire marketing research firms when they do not have the research expertise in-house, when the project is large, or when the expenditure of time and money is worth the expected results. Marketing research is a big business. You may even be familiar with some of the larger companies that provide marketing research services: A.C. Nielsen, Arbitron, J.D. Power and Associates, The Gallup Organization, and Yankelovich.



Reality Check

Have you ever conducted a survey or participated in a survey? Describe the experience.



Reality Check

Imagine that you are asked by your favorite store to help them learn about their customers. Describe the primary data you would collect.

Sources of Secondary Data

Secondary data can be found in a variety of formats, including newspapers, magazines, journals, computer databases, and the Internet, 20-5. Computers and information technology have made it much easier to find and analyze secondary data.

A **database** is a computerized file of information. Database software enables you to find the information you need quickly. It also enables you to analyze the information easily. One type of database is the customer database. A customer database will contain a file for each customer. Each customer file will contain information such as the customer's name, address, phone number, and a list of purchases. Another type of database is the marketing research database. A marketing research database contains the results of marketing research. Before the widespread use of computers, most data were kept in paper records. Such records were very time-consuming to search and analyze.

There are five categories of sources for secondary data: your business records, government databases, private databases, libraries, and the Internet, 20-6.



20-5

Computers have made it much easier to find, store, retrieve, and analyze secondary data.

Business Records

Every business collects data. The data include sales records, customer data, financial statements, and marketing cost records. *Data mining* is the process of analyzing company data to find answers to questions.

Government Databases

The U.S. government collects an enormous amount of information about the economy, business, and population. State, regional, and municipal governments also collect data. Much of this information is available online. Libraries also can help you locate government data.

Private Databases

Many businesses collect marketing information. Marketing research firms collect this information in order to sell it to outside parties. Some businesses develop industry publications. An **industry publication** is a magazine or newsletter that focuses on a specific industry. Another name for an industry publication is *trade journal*. The publication usually covers a wide range of information of interest to the specific industry. The industry publication often gathers and publishes market information. One example of an industry publication is *Beverage Digest*. This publication was the source of the data on soft drink markets in Chapter 19.

Trade associations also collect marketing information. A **trade association** is an organization of people in a specific type of business. The members of a trade association work together to help each other succeed. Sometimes information from a trade association is free; sometimes it is free only to members; and sometimes it is available for a fee. Information from a trade association is often published in their journal or on the

Sources of Secondary Data

Source	Examples
Your business records	Customer records, sales records, financial statements, promotional campaign records
Government databases	U.S. Census Bureau, U.S. Bureau of Labor Statistics
Private databases	Marketing research companies, trade associations, chamber of commerce
Libraries	Books, industry publications
Internet	Search engines, company Web sites, trade association Web sites

20-6

Valuable information is available from secondary sources. Secondary sources are often cheaper and easier to access than primary sources.

Internet. For example, the National Grocers Association publishes their marketing survey on their Web site, www.nationalgrocers.org. Businesses can often compare themselves to businesses of similar size and in similar locations by using data collected from their trade association.

Another source of information are the local and state chambers of commerce. A **chamber of commerce** is a group of businesses that get together to promote business in their area. Chambers of commerce can often provide marketing information and information about other businesses in the area.

Libraries

Libraries are an excellent source of secondary data, 20-7. A librarian can help you find databases, government information, Internet sources, and printed resources such as books, business directories, magazines, journals, and newspaper articles.

Internet

The Internet has made all types of marketing research easier and quicker. It is especially helpful in the area of competition



20-7

Libraries are excellent sources of secondary data. A librarian can help you with your search.

research. You can go on the Internet and find information about competing businesses. You can go to the business's own Web site.

In addition, many trade associations have Web sites. For example, suppose you want to open a car detailing business. An Internet search would lead you to the International Car Wash Association and www.carcarecentral.com. This Web site

provides all kinds of news and technical information for car wash and detailing businesses.



Reality Check

Imagine that you are asked by your favorite store to help them learn about their competitors. Describe the secondary data you would collect.

Marketing Research Process

Much valuable marketing research is performed in an informal way. For example, the owner of a gift shop walks around her store talking with customers. From this she learns what her customers think of her products and services. Another example is when a sales representative notices that his sales are down. He starts asking his customers questions about his product and what they are buying instead. Another example might be when the president of a company gets an angry call from a key customer, listens to the customer's complaints, then calls other customers to see if they are having the same problems.

Marketing research can also be done in a more formal way. The process for formal marketing research is very similar to the process for scientific research. For example, in both scientific research and marketing research, you must develop a hypothesis. A **hypothesis** is a statement that can be tested and proven either true or false. Figure 20-8 presents the steps in formal research.

Once marketing research is completed, it is up to the decision makers to decide how to use it. Usually, the decision makers develop a plan based on the research. They assign people to carry out the plan. Then they evaluate the results.

Trend Research

One of the major goals of marketing research is to spot business opportunities. One way to do this is to look for new trends. In general, a *trend* is a direction of movement. In marketing, a **trend** is a direction of movement of consumer behavior. Trend research often combines research on customers, competition, and opportunity.

Businesses that are very successful often recognize trends early and develop products to meet new needs. There are many types of trends, but three are of particular interest to marketers: (1) social trends, (2) demographic trends, and (3) product trends.

Social Trends

Social trends are changes in society. You learned about some of these changes in Chapter 14. Social trends often lead to changes in consumer behavior. One of the major social trends of the twentieth century was the increase in the number of working mothers. This social trend resulted in the need for more child care and for more convenience foods. Companies that developed child care and companies that developed convenience foods became successful.

Demographic Trends

Demographic trends are changes in the size of various segments of the population. You learned about some major demographic changes in Chapter 14. Marketers are very interested in demographic trends. They want to know which markets are growing so that they can target those markets. Several demographic trends are of particular interest to marketers. One trend is the increase in the population over 65. Older people generally have more time, more money, and more health concerns. Businesses in travel, health care, and financial services will find growing

Steps in Marketing Research

Step 1. Define the problem.

Before you can effectively do research, you must identify the problem. Answer these questions: What is the problem that we want to solve? What are our goals?

For example, a school store wants to expand its product offerings. The problem to solve is, "What new product or products should we sell?"

Step 2. Conduct background research.

To do effective research, you have to learn about the problem. Background research helps you understand the problem and learn how others have solved it. Answer these questions: What do we already know? What do we need to find out? How have others solved this problem?

In the school store example, you might research what other school stores are selling and what students in your school want.

Step 3. State a hypothesis.

The next step is to narrow the focus of your research to one question that can be answered by research. You need to state a hypothesis. A hypothesis is always stated in the positive. Scientists test one hypothesis per experiment. Each marketing research project should have one hypothesis.

In the school store example, the hypothesis that the school store might want to test is "Students will buy bagels at the school store."

Step 4. Develop a research plan.

A research plan consists of the specific steps you will take to test your hypothesis. You need to decide whether you will gather secondary information, primary information, or both. If you gather primary information, how will you do it?

In the school store example, the research plan for the bagel hypothesis might include developing a survey, deciding to whom to give the survey, and deciding when to do the survey.

Step 5. Collect data.

The next step is actually testing the hypothesis by collecting data or performing an experiment. Conducting a survey is an example of collecting data.

In the school store example, data would be collected by administering the survey to students.

Step 6. Analyze the data.

Data are useless unless you analyze them. *Analysis* involves studying the data for patterns, organizing the data into graphs and charts, and comparing the data with data from previous studies. *Statistical analysis*, a mathematical technique for analyzing data, is also usually done.

In the school store example, suppose you carried out the bagel survey. You now have a pile of 100 surveys. To analyze them, count the number of people who answered each question the same way. Suppose the first question was "Would you buy bagels at the school store? Yes or No." You would count the number of surveys with the answer "yes" and the number of surveys with the answer "no."

Step 7. Draw conclusions.

Based on the analysis of the data, draw conclusions.

In the school store example, consider the data from the bagel question. Suppose that 85 people answer "yes" and 15 answered "no." Based on these data, you might conclude that most students would buy bagels at the school store.

Step 8. Make recommendations.

Once you have drawn a conclusion from your research, you are ready to make a recommendation. Often, the results of marketing research must be shared with many people. Therefore, marketing researchers usually write the results, conclusions, and recommendations in a report. Often this report is presented to the decision makers in the business.

In the school store example, you might recommend that the school store start selling bagels.

opportunities. Another trend is the increase in minorities, particularly African American, Hispanic American, and Asian American. The growth in size and buying power in these groups also provides opportunities for businesses.

Product Trends

Product trends refer to the direction of development of products. For example, the current trend in electronic devices is toward wireless. The trend in televisions is toward large flat screens. The trend in snack foods is toward bite-sized pieces.

There is a big difference between a trend and a fad. A trend is a significant change that lasts for an average of ten years and affects large numbers of people. A **fad** is something that enjoys high popularity for a short amount of time and then disappears. The classic fad was the “Pet Rock” of the 1970s. An advertising executive came up with the idea and presented it at a gift show in August 1975. The idea caught on, and over one million pet rocks were sold during the 1975 holiday gift-giving season. By the end of that year, no one was buying pet rocks. The fad was over.



Reality Check

Name a current trend that you see around you.
Name a current fad.

Trend Researchers

A number of marketing companies specialize in researching and predicting trends. One of the best-known trend researchers is Faith Popcorn and her company, the Brain Reserve. She and her colleagues have been very successful in identifying trends and making recommendations to businesses based on

these trends. For example, one trend she calls “small indulgences.” The underlying cause of this trend is that consumers are very stressed out by their busy lives, so they want to reward themselves. The result of this trend is that consumers are willing to spend money on small, affordable luxuries, 20-9. An example of a successful product based on this trend is designer sunglasses, which average \$77 a pair. A business that has capitalized on this trend is Sunglass Hut, which now has over 1,500 stores and annual sales of over \$600 million.

Is Marketing Research Always Right?

Data are neither right nor wrong. The results of marketing research can be either useful or useless. Sometimes the results of marketing research can be misleading. For example, customers can change their minds between the time you did your research and the time your new product reaches the market. Here are some of the reasons why market research can be misleading:



20-9

A current trend is the desire of consumers to reward themselves with small, affordable luxuries. Designer sunglasses are one of these luxuries.

- The market changes before you have a chance to implement the results of the research.
- Customers change their minds between the time you did the research and the time your new product comes out.
- The survey questions may have been poorly worded, or the wrong questions were asked.
- A competitor comes out with a new product before your new product comes out.
- The people in your study did not really represent the target market.
- People in your study did not respond truthfully.
- Different methods of collecting and analyzing data sometimes yield different results.

Sometimes the usefulness of marketing research depends on the person interpreting

the results. For example, a person who knows the market well might be better at interpreting results than someone who does not know the market at all. Sometimes a “gut feeling” is better than the most expensive marketing research results.

Here is a classic example. Many years ago, photocopy machines used paper called Thermofax. The process used to produce Thermofax copies yielded a copy that smelled bad, tended to curl up, and quickly turned brown. The Xerox Corporation began developing a plain-paper copier. Xerox conducted marketing research to find out whether people would pay five cents for a plain paper copy, when a Thermofax copy cost only one-and-a-half cents. The marketing researchers concluded that no one would pay extra for the plain-paper copies. Management at Xerox ignored the marketing research results. They followed their business instincts. The Xerox plain-paper copier became the best-selling copier in the world.

CHAPTER 20 REVIEW

Remember This

- Marketing research is the gathering of information to make marketing decisions.
- Three areas of marketing research are (1) customers, (2) competition, and (3) opportunity.
- Primary data are collected through (1) observation, (2) interview, (3) survey, or (4) experiment.
- Secondary data are available from (1) your own business records, (2) government databases, (3) private databases, (4) libraries, and (5) the Internet.
- Information technology has made it easier and quicker to collect marketing information.
- The process of formal marketing research is very similar to the process for scientific research.
- Social, demographic, and product trends affect marketing.
- Whether marketing research is useful depends on how the results of the research are used.

Review Concepts

1. Why would a business owner want to do marketing research?
2. What is the difference between primary and secondary data?
3. Give an example of each of the four ways to collect primary data.
4. What is a focus group?
5. Suppose you ran a small business. How would you get primary data?
6. List the five sources of secondary data and give an example of each.
7. Give an example of informal marketing research.
8. To what is the formal process of marketing research similar?
9. What is the first step of the marketing research process?
10. Why are businesses interested in trends?
11. What is the difference between a fad and a trend?

Think Critically

1. Imagine that you want to open a store that sells sporting goods. Write three questions that could be answered by marketing research.
2. Why would a business need primary data?
3. How could a secret shopper help a business?
4. Imagine that you have just opened a sporting goods store. You need some primary data. Which form of collecting the data would you use and why?
5. Imagine that you are still planning your sporting goods store. What kinds of secondary information would be useful and where would you get it?
6. Give three reasons why marketing research might lead to the wrong conclusions or actions.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what kind of marketing research the company performs and uses.
2. Many businesses use customer surveys. Restaurants and hotels commonly leave out surveys for customers to complete. A magazine may insert a survey in an issue. Internet Web sites often have user surveys in pop-up windows. Get a copy of at least one customer survey from a local business. Analyze the survey. What is the purpose of the survey? What information are they trying to gain from the survey?

Explore Careers

1. Read the article "Market and Survey Researchers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What does a marketing researcher do? Visit the Web site of the Marketing Research Association (www.mra-net.org). How could membership in this organization help you in a career in marketing research? Click on the "Career & Training" link, then the "Classifieds." Browse the "Help Wanted." Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Statisticians are essential for gathering reliable data and for analyzing and interpreting the data. Even if you do

not become a statistician, you are likely to work with some during a career in marketing. Read about careers in statistics in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Also visit the Web site of the American Statistical Society (www.amstat.org). Click on the "Career Center" link, then "Careers in Statistics." Also search the AMS Web site for information on statistics and marketing. Make as complete a list as you can of the types of work and projects statisticians do for business and marketing.

Connect to the Internet

1. Visit the Web site of the U.S. Census Bureau (www.census.gov). Find the link for "State and County Quick Facts." Select your state. What kinds of useful information can you find for your state? Now find the link to select a county. Select your county. Based on this information, list two types of businesses that would be successful in your county and explain why.
2. Visit the Web sites of several marketing research firms, such as A.C. Nielsen (www.acnielsen.com), Arbitron (www.arbitron.com), J.D. Power and Associates (www.jdpower.com), The Gallup Organization (www.gallup.com) and Yankelovich (www.yankelovich.com). What services do they offer? Do they have information for consumers? Do they specialize in a specific type of research? Make a chart or poster that compares these firms.

What should
you sell?





PART 4 PRODUCT DYNAMICS

- 21** What Is a Product?
- 22** Branding
- 23** Developing New Products
- 24** Making Goods
- 25** Product Management

What Is a Product?

Marketing Terms

tangible
intangible
consumer products
business products
inseparable
perishable
quality
premium quality
moderate quality
value quality
feature
option
warranty
guarantee

After studying this chapter, you will be able to

- explain why product is the primary P of the marketing mix.
- explain the three characteristics of services that distinguish them from goods.
- describe the good-service continuum.
- give an example for each of the four product element categories.

The product is the primary P of the marketing mix, 21-1. The product is the first element of the marketing mix to be decided. The other marketing mix decisions—place, price, and promotion—are based on the product decision. If you do not have a product to sell, you do not need place, price, or promotion. In fact, if you do not have a product to sell, you do not have a business!

Types of Products

What does a customer actually buy when he or she buys a product? When you buy an automobile, are you buying just metal, cloth, plastic, and glass formed into a machine?



21-1

The product is the primary P of the marketing mix. If you do not have a product, then you do not need the other Ps!

No. You are actually buying transportation, the ability to safely and easily get from one place to another. You may also be buying independence and prestige. When you buy a ticket to a concert, are you just buying a place to sit for two hours? No. You are actually buying the enjoyment of the show, the ability to tell your friends about it, and a break from the stress of your daily life.

In Chapter 1, you learned that a product is anything that can be bought or sold. From another viewpoint, a product is whatever the business sells to satisfy customer needs. That product can be a good, a service, or an idea. The need-satisfying quality of a product is called a *product benefit*.

A good is a product that is tangible. **Tangible** is a word used to describe an object that exists physically and can be touched. For example, a cell phone is tangible. The opposite of tangible is intangible. **Intangible** refers to something that exists but is not physical and cannot be touched. A service

or an idea is intangible, 21-2. For example, a haircut is intangible. The idea “buckle up for safety” is intangible.

Products are usually grouped into two categories: consumer products and business products. These categories reflect the two categories of markets: consumer markets and business markets. You learned about these markets in Chapter 4. **Consumer products** are products (goods, services, and ideas) sold to customers for personal use. **Business products** are products (goods, services, and ideas) sold to businesses (or organizations or governments) for business uses. (Remember



21-2

A game of minigolf is a service product. You can buy and sell games of minigolf, but you cannot touch a game of minigolf.

that business uses include making new products, buying products for resale, and buying products for use in running the business.)



Reality Check

Give an example of a good, a service, and an idea. Explain how each one is either tangible or intangible.

The Service Economy

Throughout the nineteenth and much of the twentieth centuries, the word *product* was used to refer to a tangible good. The United States was an industrial economy. The main products of an industrial economy are tangible goods. Most of the U.S. gross domestic product (GDP) came from the sale of tangible goods. The majority of people in the United States held jobs in manufacturing, mining, or agriculture. These are jobs that create tangible goods.

Toward the end of the twentieth century, the basis of the U.S. economy shifted from industry to knowledge. The main products of a knowledge-based economy are services. A *service* is an action that is performed for another person. Services include highly technical activities such as medical care. Services also include simpler activities such as serving at a fast-food restaurant.

An economy in which most of the GDP comes from services and most of the workers have jobs in services is called a *service economy*. Today, services account for 80 percent of GDP in the United States. Services also account for most of the products that the United States sells in international trade.



Reality Check

List at least ten services that you use.

Characteristics of Services

Services are different from tangible goods in three important ways: services are (1) intangible, (2) inseparable, and (3) perishable. These characteristics of services present special problems for marketers.

Intangible

Intangible means having no physical characteristics. Services cannot be touched or tried out before purchase. For example, when you shop for a car, you can kick the tires, choose a color, and go for a test drive. When you buy a concert ticket, you cannot try the concert out beforehand. When you go to a doctor, you cannot try the doctor out beforehand.

Intangibility presents a great challenge to marketers. It is difficult to show a picture of the product itself, or give the customer a chance to try it out. As a result, marketers often try to find images that make an intangible product seem tangible. One of the classics is the promotion for Allstate Insurance. The slogan is “You’re in good hands with Allstate.” The image is two hands cupped in a supportive way, like a safety net. The slogan and image make the intangible service of insurance seem like the more visible idea of a friend helping you in times of need. See Chapter 22, Figure 22-7 for a picture of the logo.

Inseparable

Inseparable means that production of the service cannot be separated from use of the service. Also, the production of the service cannot be separated from the producer of the service. In other words, the service cannot be separated from the person who performs the service, 21-3. For example,



21-3

Services are inseparable. The production of the service cannot be separated from the person who performs the service.

suppose you go for a haircut. The haircut does not exist until the hairdresser cuts your hair. In addition, the haircut does not exist without the hairdresser.

Because services are inseparable, the customer often thinks of the service and the service provider as the same thing. In other words, the product of the hair salon is not just the haircut. The product is also the hairdresser who performs the haircut.

Inseparability leads to several problems. The first problem is quality control. It is very hard to make sure that each service provider provides the same quality service. For this reason, there are certification programs for doctors and other professional service providers. Even with certification, the quality of a service is often connected to the specific, unique person who performs it. When a good hairdresser leaves a hair salon, often her customers leave with her.

Second, the customer is often very involved during the production of the service. For example, in order to use an Internet service, the customer has to learn how to use it. If the customer does not take

the time to learn, the service might seem faulty, when it was actually the customer's participation that was faulty.

Perishable

Perishable means that the product cannot be stored for later use. Some goods are perishable, such as milk and seafood. However, most goods can be stored for later use. For example, jeans can be stored in a warehouse until needed by retail stores. The ability to be stored is a key difference between goods and services.

Services cannot be stored for later use. For example, unsold tickets for a concert cannot be saved and sold at a later time. Once the concert is over, the tickets have no value. Perishability creates major challenges in meeting demand because unused services cannot be stored for later use. For example, the demand for haircuts varies from day to day and during the day. Imagine an hour when a barber has no customers. That hour of hair-cutting time cannot be stored for use at a later time when the shop is crowded with customers.



Reality Check

Choose a service that you use or would like to use. Describe how that service is intangible, inseparable, and perishable. How is that service advertised?

The Good-Service Continuum

Imagine that you are having a nice dinner in a restaurant. What is the restaurant's product? Is it a good or a service? Actually, it is a combination of both. The food itself is a good; but the atmosphere of the restaurant, the preparation of the food, and its presentation to you are a service.

Many products are combinations of goods and services. In fact, products can be visualized as being on a continuum. On the left end, the products are purely tangible goods, for example, soap. On the right end, the products are purely services, for example, tutoring. In between are the products with varying combinations of goods and services, 21-4.



Reality Check

Name a product that you think is a combination of good and service. Describe where you think that product fits on the continuum.

Product Elements

Products have many elements that can be changed to meet customers' needs. These elements can be organized into four categories: (1) basic product, (2) usage,



21-4

Many products are a combination of goods and services. Where would some of the products you use fit on this continuum?

(3) protection, and (4) name, 21-5. These are the elements that the marketer decides.

Basic Product

What product will you sell? It could be a good, such as skateboards or refrigerators. It could be a service, such as auto repair or child care. It could be an idea, such as a candidate for office or a fund-raiser for charity. Once you know what your basic product is, you can then make decisions about quality, features, and options.

Quality

Quality is the level of excellence in something. Customers have different ideas of what good quality is. A product that meets the quality needs of one target market might not meet the quality needs of a different target market. For example, a candy bar from a vending machine might be the right quality level for a quick snack. It might not be the right quality level for a Valentine's Day gift for your spouse.

There are three general quality levels: premium, moderate, and value. Price and quality usually go together. Higher quality products usually have higher prices.

Premium quality is the highest. Premium quality usually uses the highest quality materials and has the highest price. For example, in hotels, the Ritz-Carlton would be premium. **Moderate quality** is the middle range of quality. It usually combines good quality materials with moderate prices. In hotels, a Holiday Inn might be moderate quality. **Value quality** is usually an adequate level of quality. It combines the lowest price with the best possible quality at that price. A Motel 6 would be value quality. The exact descriptions of these levels of quality vary with the products and industry.

Features

Both goods and services have features. For a tangible good, a **feature** is a physical

Product Elements

Basic Product

- Quality
- Features
- Options

Usage

- Instructions
- Installation
- Technical support

Protection

- Packaging
- Warranty
- Maintenance and repair services

Name

- Product name
- Brand name
- Personality



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21-5

Marketers have many elements to choose from when deciding what to include in a product.

characteristic of the good. For a service, a feature is one of the tasks that will be done as part of the service. For example, the physical features of a cell phone include its size and color. The service features of a cell phone include voice mail and call waiting. The marketer decides which features and how many features to include in a product, 21-6.

Options

An **option** is a feature that can be added to a product at the customer's request. Many products are designed as a basic product, with features that can be added. Sometimes options are called *optional features*. For example, options on an automobile might include a sunroof, leather seats, and a 6-disc

21-6

One of the features of this running shoe is that it is available in several colors.

CD player. Options enable the customer to customize the product to his or her specific needs and wants. The marketer must decide which options to offer.



Reality Check

Name a product that you use or would like to use. Then describe its quality, features, and options.

Usage

Many products are designed to be assembled, installed, or used in some way. Part of the product decision is how to help

the customer make the best use of the product. If customers do not know how to properly use a product, they are likely to get frustrated and become dissatisfied. They may return the product or just never buy from you again. Aspects of the usage element include instructions, installation, and technical support.

Instructions

Clear instructions are an essential part of many products. Products requiring instructions include furniture, electronic devices, and software. Many products just include a sheet of assembly instructions. Instructions for complex products usually accompany the product in the form of a user's guide or instruction manual. Some companies provide classes or seminars to help customers use their products. Computer software companies and home supply stores often provide such classes.

Installation

Installation is the process of placing a good where it will be used and making the good ready for use. Installation is a service that is offered with many goods. Goods that require installation include appliances, carpeting, plumbing fixtures, and in-car stereo systems. Although some customers prefer to do it themselves, many want an expert to install goods for them.

Technical Support

Many products are very complex. Complex consumer products include software, electronic devices, and Internet service. Complex business products include factory equipment and telecommunications systems. Complex products have a tendency to develop problems from time to time. Many companies that sell such products offer technical support. *Technical support* consists of people who are available to help

customers with problems. The availability of technical support is often very important to customers, 21-7.



Reality Check

Name a product that you use or would like to use that requires instructions, installation, or technical support. Describe the product and the usage elements for that product.

Protection

Protection is a broad category that includes packaging, warranties, and maintenance and repair services.

Packaging

Packaging performs the critical function of protecting the product from damage until the customer is ready to use it. For example, appropriate packaging is necessary to keep



21-7

Many technical products are complex and prone to problems. Technical support is an element of the product that should be planned in the beginning.

foods fresh and healthful. Also, many fragile products such as computers and lamps are carefully packaged to prevent damage. Some packaging is designed to protect the product from theft. For example, small items are often placed in large or bulky packages to make it harder for shoplifters to hide the item.

Packaging serves another important function: promotion. Packaging is often the “face” that a product shows the world. It is often what you see first. Think of a cereal box. The design and labeling on a package are often used as part of a product’s promotion and part of the product’s identity. Packaging, such as that on cereal boxes, continues to promote the product even after the customer brings it home and starts using it. For these reasons, packaging is often discussed as part of the promotion decision as well as the product decision.

Packaging also serves several other functions. The packaging of consumer products often makes them easier to stack or display in retail stores. Packaging can be designed to protect the consumer, for example, using plastic bottles instead of glass for beverages and child safety caps for medicines. Packaging also provides information about the product, such as content labeling, nutritional information, and weight, 21-8.

Packaging is used in the figurative sense for services and ideas. Often, the image and decor of an office are the only tangible features of a service. In the realm of political campaigns, “packaging” a candidate is a critical part of the candidate’s promotion.

**21-8**

Most packaging provides information that consumers need in order to make buying decisions.



Reality Check

Name a product that you use. What impression does the packaging make? What does the packaging do for the product? Name a service that you use. Describe the packaging for that service.

Warranties

Often, customers worry whether an expensive item will last. In order to assure customers of the quality and reliability of a product, many marketers provide warranties. A **warranty** is a written document stating the quality of a product and promising to correct specific problems that may occur. Most new automobiles have a warranty. The warranty promises that for a certain amount of time or miles, the manufacturer will replace or repair specific parts if they break.

A guarantee is similar to a warranty. A **guarantee** is a promise that a product has a certain quality or will provide satisfaction. However, the word *guarantee* is usually used in promotions, whereas a warranty is a written document. Services often advertise guarantees. For example, some pizza delivery services guarantee pizza in half an hour or it is free.

Maintenance and Repair Services

Many complex machines, especially for the business market, require regular maintenance. Many consumer products also require regular maintenance, most notably the automobile. As a result, when marketers develop a product that requires maintenance and repair services, they must plan for these services when they plan the product. The availability of such services often affects the customer's buying decision. For example, when you purchase a car, you have a choice of many dealers. Some consumers might choose to buy from the dealer with the most convenient service department, 21-9.



21-9

A customer may choose to buy a product from a particular business, based on the availability and quality of repair services.



Reality Check

Name a product that you use or would like to use. Describe the product and the protection element (packaging, warranty, maintenance services) for that product.

Name

The name element includes the product name, the brand name, and the product's "personality." The name elements also have promotion functions. However, they are an integral part of the product itself and are therefore part of the product decision, too. Sometimes choosing the right name for a product can guide the product and other marketing mix decisions. For example, a vacation resort was developed on a Caribbean Island called Hog Island.

However, the resort did not take off until its name was changed to Paradise Island. You will learn more about names and branding in Chapter 22.

Product Strategy

A *product strategy* consists of all the decisions made about the product. It starts with the decision about which product to offer. It then proceeds to decisions about the

various elements of the product. Product element decisions are made with the target market in mind. Product strategies are also developed to distinguish your product from the competition's products. Product strategies must balance meeting customer needs and beating the competition with the costs of producing and marketing that product. Product strategies must also be coordinated with the strategies for the other Ps.

CHAPTER 21 REVIEW

Remember This

- The product is the first element of the marketing mix to be decided.
- Services are (1) intangible, (2) inseparable, and (3) perishable.
- Product elements can be organized into four categories: (1) basic product, (2) usage, (3) protection, and (4) names.
- Basic product elements include quality, features, and options.
- Usage elements include instructions, installation, and technical support.
- Protection elements include packaging, warranties, and maintenance and repair services.
- Name elements include product name, brand name, and the product's "personality."
- Product strategy consists of all the decisions made about the product elements.

Review Concepts

1. Why is the product the first element of the marketing mix that is decided?
2. What is a product benefit?
3. What is the main difference between something that is tangible and something that is intangible?
4. What are the two categories of products?
5. Why is the current economy in the United States considered a service economy?
6. Describe the three characteristics that make services different from goods.
7. Describe the three levels of quality.

8. Why do some products have options?
9. Why do some products have technical support?
10. What is the function of packaging?
11. What is the difference between a warranty and a guarantee?
12. Name two product elements that are also part of promotion decisions.

Think Critically

1. Can a product be both a consumer product and a business product? Explain your answer.
2. Name a service. Then describe how its qualities are intangible, inseparable, and perishable.
3. Give an example of a product that is a combination of good and service. Then describe how this product combines the two.
4. Which elements of the product decision are actually services?
5. Choose a technical or complex product, such as a car or a computer. Name a specific model and brand. For that product, describe each of the 12 product elements listed in Figure 21-5, to the best of your knowledge, without doing research.
6. How can a service be packaged? Name two services or ideas and describe ways in which they are packaged.
7. How do companies change the product strategy for different target markets? Choose a business, such as fast food or automobiles. Give an example of changes made to the product to meet the needs of different target markets.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what the product strategy is. List the product element decisions for the business's main product.
2. How many different variations on one product are available? Choose a consumer product, such as shampoo, cereal, or carbonated beverages. List all the variations on the basic product. Then describe the target market for each variation.

technical writer different from other types of writers? Visit the Web site of the Society for Technical Communication (www.stc.org). How could membership in this organization help you in a career as a technical writer? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a technical writer. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

Explore Careers

1. Packaging is big business. Use library resources and the Internet to find information about careers in packaging. Visit the Web sites of Packaging Digest (www.packagingdigest.com) or Institute of Packaging Professionals (www.iopp.org). Click on the "Career Opportunities" or "Career Center" link. Browse the jobs available in packaging. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Have you ever purchased a product that needed assembly, but found the instructions totally confusing? The people responsible for writing assembly instructions and users manuals are technical writers. Read the article "Writers and Editors" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What makes a

1. Visit the Web site of an automobile manufacturer or dealer. Select a vehicle that you would like to buy. Describe the basic product. List all the options available, and describe why you think the marketer provided each option. In other words, what target market does the option appeal to? How does the availability of these options give the car a competitive edge?
2. Visit the Web site of a political party. Find a candidate who is running for office. How is that candidate being packaged? How are his or her supporters trying to distinguish him or her from the opposing candidate? What is this candidate's competitive edge?
3. Visit the Web site of a business that sells services, such as an insurance company or a bank. How is the service being packaged? How are the marketers making the intangible service more tangible? How does the promotion try to make intangible elements tangible?

Jim Stanger

Marketing Terms

brand
brand name
logo
slogan
corporate brand
product brand
manufacturer brand
private brand
generic brand
benefit
positioning
brand position
brand loyalty
trademark
service mark

After studying this chapter,
you will be able to

- explain the value of a brand.
- distinguish between a corporate brand and a product brand.
- list three ways branding helps the customer.
- explain how branding helps the marketer.
- describe how marketers create a positive brand image.

"Hand me a Kleenex®. I want Jell-O®. Please Xerox® this for me. I would like a Coke®." It is likely that you have made at least one of the statements or some variation on them. What do Kleenex, Jell-O, Xerox, and Coke all have in common? Each of these words is a brand name that has become so powerful that the brand name is often used instead of the product category. Kleenex is a brand of disposable facial tissue. Jell-O is a brand of dessert gelatin. Xerox is a brand of photocopy machine. Coke is a brand of carbonated cola beverage.

The power of branding works in the reverse, too. If someone says computers, what brand name leaps immediately

to mind? IBM. Some other connections are chocolate bar—Hershey's, overnight delivery—FedEx, and computer games—Nintendo. What do IBM, Hershey's, FedEx, and Nintendo have in common? These companies have promoted their brands so successfully, that the company's name is equivalent to the entire product category in customers' minds.

The value of a brand is its ability to increase sales through brand recognition and brand loyalty, 22-1. Disney is one of the most valuable brands in the world. If the Disney brand had been for sale in the year 2001, it would have cost over \$32 billion!



Reality Check

How many brand names can you list?



22-1

What would shopping be like with no brand names?

What Is a Brand?

At its simplest, a **brand** is a mark or design placed on a product to distinguish it from other products and to identify the owner of the brand. At its fullest level, the brand of a product encompasses all aspects of the product: its name, marketing mix (product, place, price, and promotion), personality, image, position in the minds of customers, and history. A brand is a shorthand way of communicating what the product is all about. It is also a way to distinguish the product from its competitors.

Parts of a Brand

Brands have two parts: tangible and intangible. The tangible parts of a brand are its name, its logo, and its slogan. The brand name is the name given to the product. A **brand name** consists of words, numbers, or letters that can be spoken. For example, Nike is the name for a brand of athletic shoes. A **logo** is the picture, design, or graphic image that is associated with a brand, 22-2. The logo is often the symbol of the brand. The Nike "swoosh" is the logo for the Nike brand. The logo can include the brand name. For example, the logo of Coca Cola is the design of the letters used in the brand name. A logo is sometimes called a *brand mark*. A *trade character* is a logo or brand mark that has



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22-2

The American Marketing Association logo includes a stylized version of the letters AMA.

been given human characteristics. The Jolly Green Giant, the M&Ms, and the Keebler elves are all trade characters.

A **slogan** is a phrase or sentence that summarizes some essential aspect of the product. Nike's slogan is "Just do it." A slogan is sometimes called a *tag line*. A slogan that is set to music is called a *jingle*. Companies may change their slogans over time.

The intangible parts of the brand are its image, personality, and ability to influence customers to buy it. Nike's image is excellence in sports. Its "personality" is that of a person who is exciting, spirited, "cool," and dedicated to doing his or her personal best. The use of top athletes in Nike advertising, such as Tiger Woods, reinforces this image and personality. Through advertising and other promotional activities, the Nike brand has developed a great ability to influence customers to buy it.



Reality Check

Name one of your favorite brands. What are the image and personality of this brand?

Level of Brand

There are two levels of brands: corporate and product. A **corporate brand** is the brand that represents the whole company. For example, Nike is actually a corporate brand. A **product brand** is the brand of a specific product. For example, Air Jordan is the brand of a specific Nike product. Both corporate brands and product brands can have brand names, logos, and slogans. Some brand names are the same for the corporation and the product. For example, Coca-Cola is the brand name of a company and of a specific product. The Coca-Cola Company has product brands in addition to Coca-Cola, for example Diet Coke and Sprite.



Reality Check

Name one of your favorite brands. Is it a corporate brand or a product brand?

Types of Brands

There are three types of brands: manufacturer, private, and generic, 22-3. A **manufacturer brand** is a brand created by a manufacturer for its own products. Manufacturer brands are also called *national brands* or *regional brands*. Most of the brands you are familiar with are manufacturer



22-3

Clothing usually comes in two types of brands: manufacturer's brand and private (or store) brand.

brands. Tommy Hilfiger clothing, Cover Girl make-up, and Lay's Potato Chips are all manufacturer brands. Manufacturers sell their brands through wholesalers, and ultimately to retailers, such as department stores and grocery stores.

Resellers often develop their own products. (Resellers include retail stores, distributors, and wholesalers.) A brand owned by a reseller is called a **private brand**. Private brands are also called *store brands*, *distributor brands*, *dealer brands*, or *private label brands*. For example, The Gap carries private brand jeans in its stores. You can buy only Gap jeans at a Gap store. You cannot buy any other brands at a Gap store, and you cannot get Gap jeans at any other retailer.

If you want to buy jeans by a manufacturer, such as Chic, Lee, Levi Strauss, Gitano, or Wrangler, you must go to a retailer, such as Sears, Kohl's, or J.C. Penney. You cannot buy Gap jeans at Sears, Kohl's, or J.C. Penney.

A **generic brand** is a product that is not branded. Generic brands are usually packaged in black and white packages and just have the name of the product category on the box. For example, a generic brand of facial tissue would just say "facial tissue" in black letters on the black and white package. Generic brands are generally lower in price than similar branded products, in part, because no money has been spent on advertising them. Grocery stores may carry generic products, such as baking soda, paper towels, and canned fruits. Many medicines are also available in generic forms.



Reality Check

Think about products that you buy. Do you buy manufacturer, private, or generic brands? Give an example of each, and explain your reason for buying that product and type of brand.

Branding and the Customer

Imagine standing in the aisle of breakfast cereals at your local grocery store. Now imagine that none of the cereals has a name. All cereals are packaged in a white box. The only way to tell one cereal from the other is to read the ingredients on the box. It would probably take you a long time to find the cereal you want.

Now imagine how it really is. The cereals are grouped by their manufacturer, for example, Kellogg's, General Mills, and Post. Each of these corporations has a distinct corporate brand: Each cereal has a specific brand name and distinctive package design, 22-4. These distinct names, packaging, and brand identities help you locate and buy the cereal you want.



Photo courtesy of IGA, Inc.

22-4

Brand names, along with distinct logos and package designs, help the customer locate the product he or she wants to buy.

Branding does three things for the customer: (1) identifies the product; (2) provides assurance of quality; and (3) provides assurance of consistency.

Identity

Branding gives a product an identity. The tangible aspects of a brand, that is, the brand name, logo, slogan, and packaging, make a product look different from its competitor. Coke is the “real thing” in a red and silver can with a wave. Pepsi is for a “new generation” in a blue and red can with a circle.

Branding gives the customer a way to distinguish one product from another. When you find a product you really like, it is easier to find again if you remember its brand name, logo, or package design, 22-5. Also,



© 2004 Photo courtesy of Reebok International Ltd.

22-5

The brand name gives a company and a product an identity. You can ask for Reebok athletic shoes by name to distinguish them from other brands of athletic shoes.

if you want to tell your friends about it, the brand name gives you a way to do so.

Quality

For the customer, assurance of quality and consistency are among the main benefits of buying brands. Customers vary in the level of quality they want in various products. For example, pens come in a variety of quality and price levels, from a simple, inexpensive ballpoint to an elegant, expensive fountain pen. For a student, the simple, inexpensive ballpoint pen is the quality and price level desired. The Bic brand pen, which sells for under a dollar, provides the quality that a student needs at an appropriate price. However, a successful executive might prefer an elegant fountain pen with platinum trim. For the executive, the Montblanc brand, which might sell for over \$300, represents the quality she needs at a price she is willing and able to pay.

Consistency

Consistency means that the product is the same whenever and wherever you buy it. For example, when you buy a McDonald's hamburger, you know exactly what you will be getting. You know that you will get the same hamburger, no matter which McDonald's restaurant you visit.

Consistency is also important for services. If you stay in a Days Inn anywhere in the United States, you know that you will be getting clean, comfortable, reasonably priced accommodations.



Reality Check

Does branding help you when you buy products? Give an example. Remember that goods, services, and ideas can be branded.

Goals of Branding

For the marketer, the power of a brand is its ability to influence purchasing behavior. Branding helps marketers promote and sell the product. Marketers use branding to achieve the following goals: (1) create a unique brand identity; (2) create a positive image of the brand; and (3) develop brand loyalty. Branding is often considered part of promotion. However, branding should be considered in every decision made for the marketing mix, starting with the product decisions. The brand is affected by the choices made for product, place, price, and promotion.

Unique Brand Identity

Marketers often use product features to sell a product. For example, a computer might have the fastest processor available. A beauty salon might have the best process for coloring hair. However, product features can easily be copied by the competition. As a result, product features are rarely unique. In order to make a brand stand out from the competition, marketers need to use other aspects of a product to distinguish it from the competition.

What are those other aspects? One aspect consists of the benefits that the customer gains from using the product. A **benefit** is the need-satisfying ability of a product. Customers buy benefits, not features. Many marketers have more success promoting the benefits rather than the features of their products. Another aspect is the visual symbol of the product. Benefits and visual symbols can be used to distinguish a product from its competition.

Product Benefits

Product benefits are generally in three categories: functional benefits, emotional benefits, and self-expressive benefits. These

benefits are based on the human needs discussed in Chapter 17 and shown in Maslow's hierarchy, Figure 17-2.

Functional benefits meet physical and safety needs. Functional benefits are often related to the features of a product such as design or location. For example, the design of M&M candies makes them easy to eat because they "melt in your mouth, not in your hand." The location and hours of a 7-Eleven store make it easy for you to get to at any time.

Emotional benefits meet acceptance and esteem needs. Customers experience emotional benefits when the features of the product create positive feelings. For example, wearing Nike athletic shoes makes you feel healthy and capable. Using Maybelline cosmetics makes you feel vibrant and attractive.

Self-expressive benefits meet esteem and self-actualization needs. Customers experience self-expressive benefits when use of the product expresses the consumer's self-image, 22-6. For example, driving a



22-6

Purchase of a product can add to a person's sense of self-esteem and self-confidence.

Volkswagen Beetle shows that you are a young, fun person. Using an Apple computer shows that you are a creative, individualistic type. Wearing FUBU clothing shows that you are cool and keep up with the latest trends.

Visual Symbols

One of the most powerful aspects of a brand is its visual symbol. The *visual symbol* is the graphic design; it may include the brand name, logo, or slogan. (Often the slogan is set to music. Then the music also becomes part of the brand's "visual" symbol, even though it is actually an aural symbol.)

Visual symbols often work best when they evoke some aspect of the brand. Part of the reason that the Nike swoosh is so effective is that it evokes a sense of movement and power. Part of the reason that McDonald's golden arches are so effective is that they remind you of the M in McDonald's. Many of these visual symbols are recognized around the world.

Visual symbols often gain their effectiveness by using metaphor. A *metaphor* is a comparison between two unlike objects or ideas, for the purpose of implying a similarity between them. For example, athletic shoes do not actually have anything in common with a wave or a swoosh. However, the Nike swoosh implies that if you wear Nike shoes, you will feel powerful like a wave or a blast of wind.

Metaphor is especially useful in developing brands for services. Services are intangible. Visual symbols are used to make the intangible benefits of a service visible. Allstate Insurance Company created one of the most successful visual symbols based on a metaphor: two hands and the slogan "You're in good hands." The metaphor compares Allstate Insurance to being taken care of by a good friend or family member. The symbol of this good person is the logo of two hands, 22-7. This metaphor, expressed



Allstate®

You're in good hands.

Courtesy of Allstate, used by permission

22-7

Services often use a metaphor to make the concept of their service visual. Allstate uses two hands to show that you are taken care of when you use Allstate Insurance.

by the logo and slogan, creates the unique identity for the Allstate Insurance brand. Allstate uses these visual symbols in their advertising to promote their brand as reliable and caring.



Reality Check

Name a brand that you use often. What kind of benefits does this brand give you? What is the visual symbol of this brand? What is the metaphor in the symbol?

Positive Brand Image

Developing a unique brand does not make a positive brand image. Positive brand image is developed over time by promotion and by customer experience with the product. Two types of activities help build a positive brand image: positioning and social responsibility.

Positioning

Positioning consists of the actions marketers take to create a certain image of a product in the minds of customers. Brands

can convey images such as prestige, value, or trendiness. The 4Ps—product, place, price, and promotion—and customer experience create the brand's image. **Brand position** is the image that a brand has in the mind of the customer. In other words, positioning is what marketers do. Marketers use positioning to find a place for the product in the marketplace and to distinguish the product from its competitors. The actual position is how the customers see the product. The positioning and the actual position of the product are the same, if the marketing has been successful.

Often those images are hard to change. For this reason, marketers usually decide the position of their products when they first plan them. Once the marketer decides on the image desired, the marketing mix is developed to create that image in customers' minds.

For example, Saturn, the automobile maker, wanted to develop a new car that would be an alternative to imported cars. In addition, car buyers had complained that the process of negotiating price for a car was very unpleasant. Therefore, Saturn also wanted to make the car buying experience more pleasant. Saturn wanted to position itself as an alternative to the import cars and to the high stress buying experience.

Saturn developed a marketing mix that emphasized this difference. The image is a caring company that focuses on its customers needs in everything it does. Saturn established the “no haggle no hassle” pricing policy. It emphasized a consultative sales process and superior customer service. It designed its cars around specific customer needs. The brand position is a company that cares about people. Saturn's emphasis on people made it different from other companies. The first marketing slogan was “A different kind of company, a different kind of car.” As Saturn established its position, the slogan changed, though the core

brand and position is still the same, 22-8. In 2004, its slogan is “Saturn. People first.”

Social Responsibility

The image of the corporation is part of the image of the brand. People like companies that are socially responsible. For this reason, many companies participate in visible community and charitable events, 22-9. For example, Sony Music Entertainment provides support to Boys & Girls Clubs of America, City Kids, Rock the Vote, the UJA Federation, the Rainforest Foundation, the

The ad is divided into two main sections. The top section shows a man in a dark jacket and red shirt standing outdoors against a blue sky. Above him is the text "The See Every Monument Dad". The bottom section shows a red Saturn VUE SUV parked on a red surface. Above the car is the text "The Go Anywhere Saturn VUE". In the bottom right corner, the slogan "People first." is displayed next to the Saturn logo.

22-8

General Motors Corp. Used with permission, GM Media Archives

Saturn continues to emphasize “People first” in its advertising.

**22-9**

To project an image of a caring company, many companies contribute to community events and charities, such as Little League.

Congressional Black Caucus Foundation, the National Urban League Annual Convention, the Congressional Hispanic Caucus, and the Asian American Legal Defense and Education Fund.

One of the hottest areas in marketing right now is obtaining “naming rights” for new sports stadiums and other public places. Many companies pay millions of dollars for the privilege of placing their corporate brand on a new sports arena.

For example, Conseco, Inc., is an Indiana-based insurance company. The city of Indianapolis built a new sports arena. Conseco paid \$90 million for the privilege of having its name on this arena for twenty years. By having its name on this arena,

Conseco is promoting its brand as one that supports sports and the economic well-being of the state of Indiana. People who attend events at the Conseco Fieldhouse will have a positive image of the Conseco insurance company. This positive image may lead some people to think of Conseco when they need insurance.

**Reality Check**

Think of a sporting event that you recently attended or watched on TV. Name some of the corporations that sponsored the event. What brands were they promoting? Why do you think these corporations sponsored this event?

Brand Loyalty

Research has shown that it is less expensive to keep current customers than to find new customers. One of the advantages of a strong brand is that it inspires brand loyalty. **Brand loyalty** is a situation in which the customer will buy only a certain brand of a product. Brand loyalty results in repeat purchases and more profits. If the brand is not available, the customer will search for the brand or not buy the product at all. For example, in the automobile category, some people will only buy Fords. In the soft drink category, some people will only buy Mountain Dew. Brand loyalty occurs when the brand meets customer needs and when marketers have created a strong relationship between the customer and the brand.



Reality Check

Are you loyal to certain brands? Name a brand and explain why you are loyal to it.

Protecting a Brand

A brand is only valuable if your competitors cannot copy it. To prevent a brand from being copied, the brand creator can register the brand with the U.S. Patent and Trademark Office (USPTO). **Trademark** is another term for brand; it refers to the word, phrase, symbol, or design, or a combination of words, phrases, symbols, and designs that identifies and distinguishes the source of goods. A **service mark** is the same as a trademark, except that it identifies and distinguishes the source of a service.

Technically, the creator of a brand and its trademark or service mark has rights in the trademark based on its usage. Anyone can use the symbols TM for trademark or SM for service mark. These symbols notify

the people who see the trademark or service mark that the creator claims exclusive rights in the brand and its trade or service mark.

However, to provide stronger protection, the creator can register the trade or service mark with the USPTO. There are many requirements that a trade or service mark must meet in order to be registered. The main requirement is that no one else has registered that same trade or service mark in the same industry. Once a trade or service mark has been registered, the symbol ® can be used with the mark, 22-10. Registration of the brand means that your right to the brand is protected by U.S. law. If anyone else uses your brand, you can sue him or her for trademark or service mark infringement. The symbol ® is used mostly on the product itself, packaging, and promotion by the company. There is no legal requirement to use the ®.

Have you ever said, “Hand me a Kleenex”? Did you mean to ask specifically for Kleenex brand tissue, or did you mean any facial tissue that was handy? In some product categories, one brand becomes so popular, that customers begin to use the brand name instead of the generic name.



Photo courtesy of Cadbury-Schweppes America's Beverages, Inc.

22-10

The symbol ® means that the trademark or service mark is protected by U.S. law.

A *generic name* is the general name for an entire product category. Kleenex is a brand in the generic category of disposable facial tissues. Generic names cannot be registered as trademarks. The words *disposable facial tissue* cannot be trademarked. A brand name, such as Kleenex, can be registered with the USPTO.

If a brand becomes so popular that people use the brand name instead of the generic product name, the brand name may lose its trademark protection. When a brand name becomes a generic name, the brand name is in effect killed as a trademark. That brand name no longer has trademark protection and can be used by anyone. Many generic names started as brand names. Examples include escalator, granola, tarmac, and zipper.

Many current brand names are often used generically. Examples include Band-Aid, Pepsi, Kleenex, and Xerox. The generic usage attests to the popularity of the brand. On the other hand, the generic usage makes it possible that the brand might lose its trademark protection, which would be a great loss to the trademark owner. To help distinguish the brand from the generic category, marketers often use the word *brand* along with the brand name or trademark. For example, Kleenex is often advertised as “Kleenex brand tissue.”

One brand that is working very hard to keep its name from becoming generic is Rollerblade, Inc. Rollerblade® is a brand of in-line skates. To protect the brand name, the Rollerblade company requests that you do not use the word *Rollerblade* as a generic term for in-line skates, 22-11, 22-12. Their guidelines apply to all brand names.

You as a Brand

Many of the most famous and popular brand names are the names of people who developed the brands. Examples include



Photo courtesy of Rollerblade USA.

22-11

The Rollerblade brand has become very popular. Because Rollerblade was the first in the market with this type of skate, people tend to forget that “Rollerblade” is a brand name.

Ford, The Ritz-Carlton, and Madonna. When people think of these brand names, they get a complete and specific image of the products that the names represent. Ford is a quality-driven brand of American automobiles and trucks. The Ritz-Carlton is a luxury hotel. Madonna is an “over-the-top” celebrity.

Imagine your name as your brand, and you as the product. When the principal of your school hears your name, what image comes to his or her mind? What image would you like him or her to have of you?

In the competitive world of job searches, the concept of branding is the new hot approach. Job candidates develop themselves as a brand. The purpose of developing your own personal brand is the same as the purpose of a product brand: to distinguish you from the rest of the competition and to make the potential employer want to buy your product (that is, hire you).

Rollerblade's Guidelines for Trademark Use

Trademarks are proper adjectives and therefore should be capitalized and should be followed by the generic terms they describe.

WRONG: rollerblade, rollerblades

RIGHT: Rollerblade® brand in-line skates

Because trademarks are not nouns, they should not be used in the plural or possessive form. Instead, pluralize the common nouns they describe.

WRONG: Rollerblades

RIGHT: Rollerblade® brand in-line skates

Trademarks are never verbs.

WRONG: rollerblading

RIGHT: in-line skating, skating

Slang terms of trademarks should be avoided.

WRONG: blade(s), blader(s), blading

RIGHT: in-line skate(s), in-line skater(s),
in-line skating, skate(s), skater(s), skating

Courtesy of Rollerblade USA, used by permission. www.Rollerblade.com

22-12

The Rollerblade company prints guidelines for proper use of its trademarked names on its Web site. These guidelines apply to all trademarks.



Reality Check

Assume that your name is your brand. What is your unique brand identity? Do you have a positive brand image? What is your slogan?

CHAPTER 22 REVIEW

Remember This

- The value of a brand is its ability to increase sales through brand recognition and brand loyalty.
- A corporate brand represents the corporation. A product brand represents a specific product.
- Branding helps the customer by (1) identifying the product, (2) assuring quality, and (3) assuring consistency.
- Branding helps the marketer promote and sell the product by creating (1) a unique identity, (2) a positive image, and (3) brand loyalty.
- A positive brand image is developed over time through promotion and customer experience with the brand.

Review Concepts

1. What is the difference between a brand name and a logo?
2. What are the intangible parts of a brand?
3. Explain the difference between a corporate brand and a product brand.
4. List the three types of brands.
5. Store brand is another term for what type of brand?
6. Why might a customer become loyal to a brand?
7. What do marketers use to create a unique brand identity?
8. What is the difference between positioning and brand position?

9. How can the creator of a brand protect the brand?
10. How could a brand name become a generic name? Give an example.

Think Critically

1. Why do marketers bother with the expense and effort involved in creating a brand?
2. Why do some marketers set their slogans to music?
3. List three brands that you think are the most successful. Identify whether each one is a corporate brand or a product brand. Explain why each brand is successful.
4. Name a corporate brand. Then list three product brands that the corporation sells.
5. Why would it be helpful to marketers to decide the branding of a product when they make the product decision and before they make decisions about the other three Ps?
6. What does social responsibility have to do with creating a brand?

Connect to Business

1. Think about your workstation or your favorite store. What are the brand name, logo, and slogan? What is the image of the brand in customers' minds?
2. Visit a supermarket and choose an aisle in the store. Name one of the product categories in that aisle. List all

the manufacturer, private, and generic brands for that product category. Compare the weight or items per package, item price, and unit price.

3. Choose a corporation that makes consumer products, such as Liz Claiborne, Inc. or Procter & Gamble. Use library resources or the Internet to research the company's brands. Make a poster or use presentation software to show the company's brands. Include the brand name, logo, and slogan for each brand. Were you surprised by any of the brands that the company owns?

Explore Careers

1. The person responsible for a specific brand is called a brand manager. Use library resources and the Internet to find out what a brand manager does. Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a brand manager. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Designers are essential in many areas of marketing. Graphic designers often work with the development of logos for brands, as well as other aspects of brand development and advertising. Read about graphic designers in the article "Designers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Search a job search

Web site for jobs as a graphic artist.

Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Use a search engine to find companies that design logos. Use the keywords "logo design." Find at least one company that displays examples of logos they have designed. The examples can usually be found at a link called "Portfolio" or "Samples." Select and print the logo you like the best. Name and/or describe the company or product for which the logo was designed. Label the parts of the logo. Explain why you like it. Do you think the logo creates a unique and memorable identity for the company or product? Explain your answer.
2. Visit the Web site of the U.S. Patent and Trademark Office (www.uspto.gov). Under the Trademark header, click the link for "Search." Then click the link for "New User Form Search." Enter the name of a famous brand. Explore the registrations that appear and then answer these questions. Who owns the trademark? Is the trademark for words only or words and a drawing/stylized characters? What is the trademark for (that is, what type of good or service)? Is this the first registration? What is the date and number of the current registration? Who else has applied for this trademark?

Developing New Products

Marketing Terms

creativity

competitive advantage

prototype

trial run

test marketing

After studying this chapter, you will be able to

- explain why marketers use a product development process.
- describe the eight steps in the new-product evaluation process.

David Marcheschi had a problem common to many college students—how to stay awake late enough to study for tests and complete projects. He did not like the taste of coffee or caffeinated soft drinks. What could he drink instead? He wished he could drink water with caffeine in it.

David had a friend whose father owned a beverage company. David took his idea to his friend's father and asked him for advice. His friend's father introduced him to his beverage chemist. The chemist developed a way to counteract caffeine's bitter taste, so that the water with caffeine tastes just like regular water. After two years of hard work, David found a company willing to manufacture and distribute the product. In 1995, the new product hit the market: Water Joe, 23-1. Today, you can buy Water Joe at convenience and grocery stores around the country and from www.waterjoe.com.



23-1

David Marcheschi took his idea, and after hard work turned it into a new product.



Reality Check

Name some newly developed products that you have purchased or used.

What Is a “New” Product?

It has been said that there is nothing new under the sun. Therefore, in one sense, there are no totally new products. However, in practice, even a simple variation on an existing product is often considered a new product. For practical purposes, a new product is a product that is different in some way from existing products. That difference may be minor or major.

Repackaging is a very common way of developing a “new” product. For example, the Dean Foods Company took an ancient product, milk, and repackaged it in a new form: the Milk Chug. The Milk Chug is a plastic, resealable, single-serving size bottle. It made milk seem like a hip new beverage, competitive with soft drinks and more convenient than the old cardboard containers.

Many new products consist of minor variations on existing products. For example, a new car model may have a new design for the taillights, but the rest of the car is the same. In snack foods, chips are often developed with new flavors. Many foods are developed with less fat, fewer carbohydrates, or less sugar.

Products that are “really” new tend to have a totally new design or involve new technology. Ruffles potato chips have ridges. The PT Cruiser and the Hummer had a totally different look from other cars. In the technology area, the first Apple home computers were a really new product. The first Sony Walkman was the first personal portable music device. The first cell phones were the first wireless telephones. The first hybrid gas/electric cars used new technology, 23-2.



Courtesy of Toyota Motor Corporation

23-2

The first hybrid gas/electric cars were a new product. The Toyota Prius was one of the first on the market. This photo shows the 2005 Prius.

Because new products are so risky, many companies like to develop variations on current or past successful products. Book publishers like series by the same author with the same characters. Film companies like to remake old movies. However, even new products based on old successful products do not guarantee success.



Reality Check

Describe a product that is being advertised as new, but is actually based on an existing or older product.

Risk of New Products

Each year over 25,000 new consumer products hit the market. Over 75 percent of these new products fail. A failed product can be very costly. If the product is the only

item a new business sells, it could ruin that business. For a large corporation, it might cost \$20 million or more to develop, produce, advertise, and introduce a new product. If the product fails, all that money is lost. Some of the most famous new-product failures include the Ford Edsel, New Coke, and McDonald's Arch Deluxe.

New products fail for many reasons. One of the main reasons for product failure is lack of planning and research, 23-3. For this reason, many businesses carefully evaluate new-product ideas. The process generally has eight steps:

1. Idea Generation
2. Idea Screening
3. Business Analysis
4. Product Design
5. Production
6. Test Marketing
7. Introduction
8. Evaluation



23-3

To avoid product failure, most companies have teams that carefully research and develop new product ideas.

As businesses go through this process, they keep in mind the marketing concept. Businesses strive to create new products that meet organizational goals as well as customers' needs.

Who develops new products? In a large company, there will often be a product development department. This department will be staffed with people who have expertise in the company's products. For example, in a company that produces machinery, the department is often staffed with engineers. In a clothing company, the department would be staffed with people expert in fashion design. Many product development departments work closely with the marketing department.

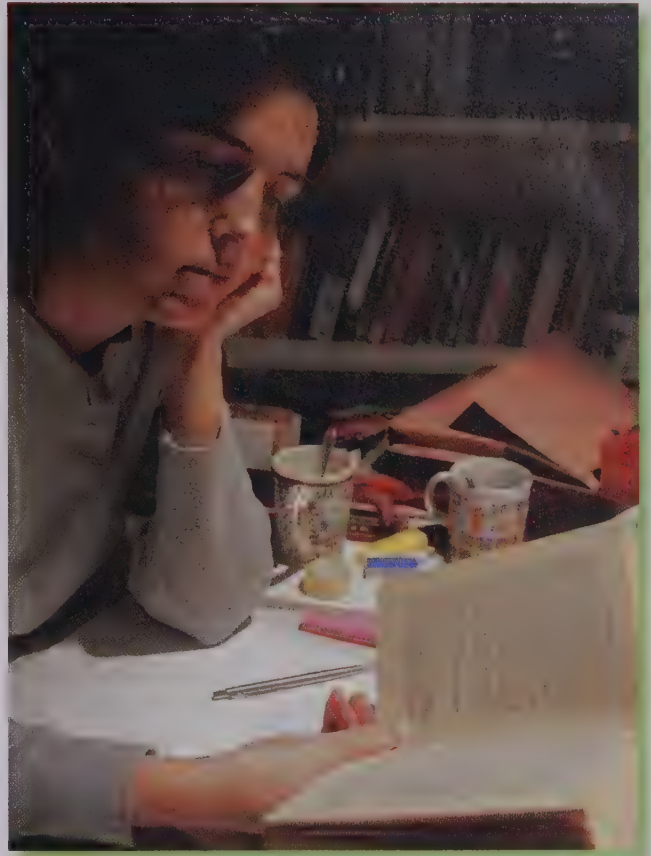
Idea Generation

Where do you find good product ideas? Product ideas are usually the result of observation, research, and creative thinking.

Observation

Observation is a common source of product ideas. A marketer observes his or her environment and looks for unfilled customer needs. Sometimes, a person cannot find a product to meet a personal need. Often, that person turns the need into a new-product idea. In David Marcheschi's case, he had a personal need to stay awake. He noticed that others had the same need, 23-4. That observation led to the idea of a beverage that tastes like water but has caffeine in it. David took his product idea and developed it into a business.

Customers often have ideas for new products. They present these ideas to someone at the company, usually a salesperson. Salespeople are often a source of new-product ideas because they are in constant contact with customers. Salespeople hear customers' comments, complaints, and suggestions about products. Many



23-4

David Marcheschi got his product idea from a personal need that he also noticed in others. Many students wanted an alternative caffeinated beverage to help them stay awake.

companies have a formal process for salespeople to submit product ideas.

Marketers also observe the competition. Sometimes a competitor comes out with a great new product. You buy the product, analyze it, and then decide to make a similar but better product. Observations of companies in other industries can also provide ideas. An idea that works for another industry might be adapted for your industry.

Research

Research is often a key part of product development. Many of the methods presented in Chapter 20 are used to develop

new-product ideas. For example, you can analyze your own business records. You can see which products are returned most often and why. This analysis might lead to a new-product idea. You can also survey your customers. You can ask them specific questions about their needs and possible new products.

One of the main reasons for doing trend research is to discover new-product ideas. Many large companies hire marketing research firms that specialize in trend research and new-product ideas. For example, trend research shows that Americans want healthy choices when they eat at a fast-food restaurant. For this reason, many of the fast-food hamburger restaurants have added salads to their menus.

Creative Thinking

One of the keys to success in marketing and business is creativity. **Creativity** is the ability to produce something new. In business and marketing, the ideas can be completely new or a new twist to an old idea. For example, Mrs. Fields' idea of a store that sells only cookies was a new idea. Ralph Rubio, founder of Rubio's Baja Grill restaurants, took the established idea of selling tacos and gave it a twist: fish tacos. Rubio's fish tacos are now famous throughout the Southwest.

Creativity is often considered a talent, and some people are particularly creative. However, creativity is also a set of skills that can be developed. Here are some common techniques used to develop creativity:

- **Brainstorming.** State the problem to be solved or the product to be developed. Let your mind float free. Then list as many ideas as you can. Push yourself to list as many ideas as you can. Do not cross out any idea, even if it seems silly. Brainstorming often works best when a group of people gets together to do it, 23-5.



23-5

Brainstorming is an excellent way to generate new ideas.

- **Learning.** Learn as much as you can about the topic about which you need to be creative. Then learn as much as you can about different areas. Sometimes an idea that works in an unrelated area will work in your area.
- **Questioning.** Ask questions. Be critical. Check information for accuracy.
- **Journaling.** Keep a journal to jot down creative ideas whenever you get them. Review your journal when you need to develop new ideas.
- **Participating in New Activities.** Trying new things can stimulate creativity. Taking art, foreign language, or improvisational acting classes is a great way to develop creativity.
- **Taking a Different Point of View.** Practice looking at things from a different viewpoint. For example, imagine that you are a cat looking at the world.



Reality Check

Describe something that you have seen or heard that is particularly creative. Describe how you are creative in your own life.

Idea Screening

Once a list of ideas is generated, they must be reviewed. There are two categories of questions that must be answered. First, will customers want and buy the product? Second, can our company produce and sell the product profitably? The first question is dealt with under idea screening. The second is dealt with under business analysis, the next section.

The goal of idea screening is to choose the best and potentially most profitable ideas. This step looks at the ideas from the customers' viewpoint. Who would buy this product? What need does it satisfy? How would customers use it? Would they be willing to buy it?

Marketers often do some marketing research at this step. They describe the idea to a sample of potential customers and get their reactions. For example, a movie producer receives a screenplay in the mail. She will have several people read the screenplay to see what they think of it. For another example, a marketer might interview some customers to get their reactions to several new-product ideas.



Reality Check

Give an idea for a new product that you would like to see. Describe the market that you think would buy it.

Business Analysis

A new product should be appropriate for the business that will produce and market it. In what ways should the product be appropriate? The product should be appropriate to the company's image, goals, strengths, and resources.

Many companies have developed an image, also known as a corporate brand. For example, Jaguar has the image of a company that builds luxury sports sedans. A truck would not fit the Jaguar corporate identity.

A new product should also fit into the goals of the company. Many companies have a goal of expanding their markets. For example, many companies want to attract buyers in younger age groups. Many companies have specific profit goals. Nonprofit organizations usually have nonfinancial goals. For example, the American Cancer Society has a goal of curing and preventing cancer and providing support to cancer patients and families. A political campaign has a goal to get people to vote.

A new product should also provide the company with a competitive advantage. A **competitive advantage** is an aspect of a product that is better than the competitors' products. A new product should have a feature that is more satisfying than the competitors' features. For example, the new product might be larger, faster, more for the money, and so on.

A new product should also fit with the strengths of the company and the types of products for which the company is known. For example, Jaguar wanted to expand its market with a lower priced product. Jaguar could have considered starting a new line of less-expensive vehicles, such as trucks. However, Jaguar's expertise and image is in luxury sports cars. To expand its market, Jaguar developed the X-Type, a less expensive version of its luxury sports car.

Last but not least, the company has to be able to afford to produce and market the product. The company needs to have the resources, such as people, expertise, equipment, and money. Even a nonprofit organization must determine whether it can afford a new product. All companies should do a detailed financial analysis of any new-product plan.



Reality Check

Why is the business analysis step important?
What might happen if this step were skipped?

Product Design

Once the idea for the product is approved, the product must be designed, 23-6. This is the stage where the idea is converted into reality. During the design step, the details of how to produce the product are planned. Goods, services, and ideas should go through a design phase.

Product design is also the stage during which the new product is tried out on a few potential customers. For example, David Marcheschi had a great idea, but he had to find a way to make a real drink that tasted good. He did this through contacting experts and finding a beverage chemist to help him make his idea a reality. Once he had a formula for a natural-tasting caffeinated water, he tried it out on his friends to see if they liked it, which they did.



23-6

The product design stage is the time when the details of creating and producing the new product are figured out.

Product design is often the step during which the brand is developed. The brand name and identity, as well as the logo, slogan, and packaging, are often developed at this stage. However, sometimes, as in the case of perfumes, the brand is developed before the actual product is developed.



Reality Check

Think up a new-product idea. How would you develop this idea?

Goods

For a tangible good, a prototype is usually developed. A **prototype** is a working model of the actual product. The designers experiment with the prototype to determine whether it performs as expected. If any problems are found, they can be worked out before full-scale production. Prototypes are especially important for electronic devices and machines. For example, Toyota had the idea to develop a new type of car: the hybrid electric/gas powered car. Toyota engineers built a prototype and tested it for performance and safety before full-scale production. The Prius, Toyota's first hybrid car, was very successful.

Marketers also use prototypes to get customers' responses. Several prototypes, each with different features, may be developed to present to potential customers. Marketing researchers will have potential customers try out the different prototypes. Customers' responses will help the marketers determine which prototype and features will sell the best.

Researchers often try out the prototypes on focus groups. As you learned in Chapter 20, a focus group is a small group of people who discuss topics of interest to the researcher. The researcher will give the focus group members a chance to use the product.

The researcher will observe the reactions to the product. The researcher will also lead the group in a discussion about the prototype and its versions. The researcher will then take this feedback to the product designers. The product designers can then modify the prototype to better meet customer needs.

Services and Ideas

For services and ideas, product design is equally important, but somewhat different from prototype development. For example, for many services, the service provider goes through a period of training during which he or she learns how to perform the service. Examples of service providers who go through training include auto repair technicians, musicians, and doctors.

In addition, a service business usually goes through a period during which the service is planned. This planning stage includes obtaining the physical location for the business, equipping and decorating the location, and organizing the system for delivering the service and taking payment. For example, a new restaurant must obtain a location and then equip the building with a kitchen, dining room, and payment-handling equipment. The restaurant must also hire servers and train them, 23-7.

A service business may also have a trial run. A **trial run** consists of trying out the service on a few selected customers to make sure that everything runs smoothly. A trial run is like a dress rehearsal for a business. For example, a restaurant might start serving meals before its grand opening, so that it can work out any problems in food preparation, timing, or service.



23-7

A service such as a restaurant often has a trial run to make sure that all systems run smoothly.

Production

For tangible goods, *production* is the step during which the good is manufactured in large quantities. Production, especially for consumer goods such as TVs, automobiles, and clothing, requires a considerable investment in capital goods, raw materials, energy, and workers. For example, when GM was ready to put the Saturn car into production, they built a whole new manufacturing plant in Spring Hill, Tennessee. The plant cost over \$2 billion and was staffed by over 4,000 people, 23-8. You will learn more about the production process in Chapter 24.

David Marcheschi needed a plant that could make large quantities of his new beverage, bottle it, and distribute it. He did not have the money or expertise to build such a plant. What he did was search for a business partner with the expertise and equipment to produce his product. It took him two years to find a partner who was willing to take on the risk of a new product.

Many critical product decisions must be made for the production step. A key decision is how many to produce. This is a complex decision that will have a major impact on the

Reality Check

Have you ever been part of a focus group or test panel for a new product? What was the product? What was your response to it? Was the product ever produced commercially?



General Motors Corp. Used with permission, GM Media Archives

23-8

Production facilities for consumer goods require a huge investment of capital goods, raw materials, energy, and workers. This Saturn plant cost over \$2 billion and was staffed by over 4,000 people.

profitability of the product. The marketing function of the business (especially market research and sales) must estimate how many they can sell. The production and finance functions of the business must figure out how many they can produce profitably, given the number that can be sold and the price. You will learn more about figuring out profitability in Part 6 Price Dynamics.

Production is also a step during which many problems occur. Often there are problems with the production process. There may be difficulties getting raw materials. The machines may break down and slow the process. The finished products may not work the way the prototype worked. All these problems must be solved before the goods can be marketed. While production is taking place, the rest of the marketing mix—place, price, and promotion—is finalized.

For services and ideas, production is inseparable from the product itself. Therefore for services, the production step is part of the product introduction.

Test Marketing

Because of the great expense and potential for risk of failure, many companies do not immediately start producing large numbers of a new product. This is especially true for a product that has a national or worldwide market. **Test marketing** involves introducing a new product to a small portion of the target market, for example, one city. Test marketing can test the entire marketing mix—product, place, price, and promotion. Response of the customers in the test market helps marketers solve any unexpected problems.

Test marketing can also test only one element of the marketing mix. For example, all elements can be kept the same except for the package design. One market will receive package design A; another market will receive package design B. If package A sells more products than package B, then package design A will be used for the product.

Test marketing can be risky and expensive. The danger is that your competitors can see your product and copy it. The competitors buy your product, analyze it, and then develop their own product. They did not have to go through all the expense that you did to develop the product idea. They might also be able to produce a better product before you get yours finalized and on the market.

Many small companies cannot afford to do test marketing. They might do some surveys or focus groups, but not a full-scale test of the entire marketing mix. These companies carefully watch the responses of their first customers to their new products.

Introduction

Introduction is the step during which the product is introduced to the market. The introduction stage is often called *commercialization*. Promotion is critical at this point. Promotion communicates with

the target market about the product, place, and price. Promotion builds the brand in the mind of customers.

Promotion often starts before the product is ready. Management will choose a date that the product will be available. The date that a product is first available to the market is called the *release date*. The production function must make sure that the product is ready and available on the release date.

For example, the fifth Harry Potter book, *Order of the Phoenix*, was set for release at 12:01 a.m. June 21, 2003. Anticipation and promotion of the book started when this date was announced, six months earlier. Many bookstores planned parties for the release day of the book, and over a million Harry Potter fans had preordered the book. The publisher of the book, Scholastic, Inc., had to make sure that the books were printed and delivered to hundreds of bookstores by the release date. Over 8.5 million books were printed.

Often, new products are introduced at trade shows. A *trade show* is a large gathering for the purpose of displaying products for sale. There are trade shows for consumer products. For example, the North American International Auto Show (NAIAS) is held annually in Detroit. Since 1989, the NAIAS has had over 700 new vehicle introductions.

There are also trade shows for business products. For example, the National Retail Federation holds an annual convention, “Retail’s Big Show,” to introduce retailers to new products of all kinds, 23-9.

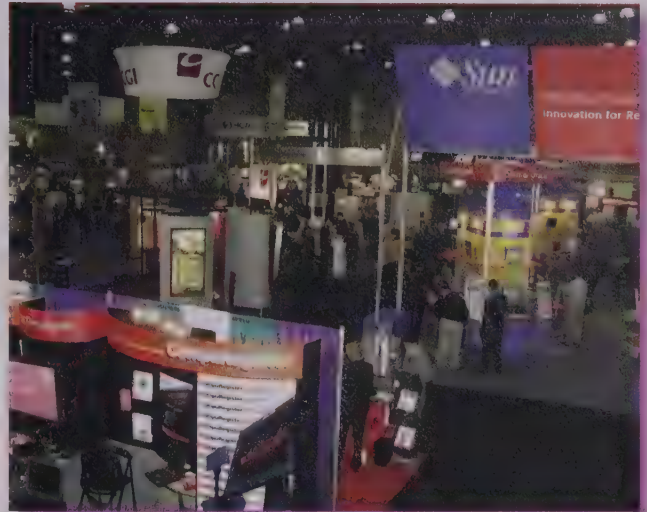


Photo by J. Craig Shearman. Courtesy of the National Retail Foundation

23-9

Trade shows are the place where new products are introduced to businesses. At “Retail’s Big Show,” sponsored by the National Retail Foundation, new products for retailers are shown.

Evaluation

Now the new product is selling. There are several questions that need to be answered. Should we continue to produce the product? Should we make any changes to the product? Should we expand the market?

All companies, including nonprofits and governments, need to know if their products are successful. All products should be evaluated, including goods, services, and ideas. Often the marketing department is responsible for determining the success of products. The success of a product is often based on the goals set for the product during the business analysis.

Evaluation of products often is part of a process called product management. Product management is discussed in Chapter 25.



Reality Check

Have you ever attended the introduction of a product, such as the Harry Potter book parties? What was done to get you interested in the product ahead of time? What was done at the event to get you to buy the product?

Anna Maria Arias

LATINA Style!

Imagine that you are standing in the magazine section of a bookstore. You do not see any magazines that speak to you and your life. How would you feel? What would you do? Most people would be frustrated, angry, or depressed, but not Anna Maria Arias.

In the late 1980s and early 1990s, Anna Maria was a young Latina professional in Washington, D.C. She was deeply concerned about the lack of opportunities for Latinas. When she observed the lack of positive role models in the media, she decided to start her own magazine.

Tapping an Unmet Need

With support from her family and the contacts she made as managing editor of *Hispanic Magazine*, Anna Maria developed her own magazine. *LATINA Style* was launched in 1994.

Anna Maria expressed her goals for the magazine in the first issue: "The contemporary Hispanic woman has been virtually ignored by general market media, and even the Hispanic media tends to underrepresent the positive contributions made by Hispanic women. To redress this state, and address the needs of this growing market segment, *LATINA Style* magazine was born."

There were other magazines for Hispanics being published. Why was *LATINA Style* so successful from the start? Anna Maria was able to identify an untapped market for her product: Latina women. There was very little being published to address issues of the professional Hispanic woman. *LATINA Style* provides a showcase for accomplishments by Latinas in all areas. It also provides information on a variety of topics such as technology, travel, investments, careers, beauty, and food.



Courtesy of *LATINA Style* magazine

Good Timing

The success of *LATINA Style* was helped by good timing. Major corporations were just beginning to notice that the buying power of the Hispanic market had been underestimated for years. Many corporations were willing to advertise in Anna Maria's new magazine. Nordstrom (the upscale retailer), Coca-Cola, and General Motors were the first advertisers to commit advertising dollars to the magazine.

Taking It to the Next Level

Anna Maria wanted to do more than just publish articles about successful Latinas. She wanted to provide a way to actually help Latinas develop the skills they needed to be successful. In 1998, she created the *LATINA Style Business Series*. This program presents seminars and workshops on topics such as how to start a business, where to find investors, and how to market your company. Also in 1998, she developed the *LATINA Style 50 Report*, an awards program for the fifty U.S. companies that provide the best opportunities for Latinas.

Sadly, Anna Maria died at the age of 41 from an illness. However, her efforts to improve the lives of Latinas live on in *LATINA Style* and the programs developed through it.

CHAPTER 23 REVIEW

Remember This

- Because most new products fail, many marketers use an eight-step process to develop new products.
- The eight steps are (1) idea generation, (2) idea screening, (3) business analysis, (4) product design, (5) production, (6) test marketing, (7) introduction, and (8) evaluation.

Review Concepts

1. What is a new product?
2. True or False. Developing a new product based on a successful product guarantees success.
3. Why do many marketers use an eight-step process to evaluate new-product ideas?
4. What methods can a business use to find ideas for new products?
5. List six techniques to improve creativity.
6. Why should ideas be screened?
7. Why is a business analysis important?
8. At what stage is a product idea converted into reality?
9. What happens during the production step?
10. Why do some companies carry out test marketing?

Think Critically

1. Choose one of the new products mentioned in this chapter, or name a new product that you have bought or seen. In what ways was this product really new? In what ways was it similar to existing products?
2. Give an example of a new service. (Hint: Think of a service business that you use. What new services might it add?)
3. Think of a restaurant or coffee shop that you visit often. What new menu items have been added? Why do you think restaurants add new products?
4. What would you do to increase your own creativity?
5. How is product design for goods different from product design for services?
6. Why should businesses evaluate their new products?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. List the new products that have been introduced this year. How are the new products selling in comparison with the established products? Find out who develops the new products.

CHAPTER 23 REVIEW

2. Visit a grocery store. Search the store for new products. Find a new product that appeals to you. In what ways is it new? How does it compare with existing products? How does it compare with competitors' products?
 3. Obtain the annual report of a business, such as Frito-Lay or Ford Motor Company. Many annual reports can be found on the Internet by using a search engine. Use the name of the company and "annual report" as your keywords. List the new products that the business has launched this year. Are sales increasing, decreasing, or stable?
- designer each is looking for. Would you like to be an industrial designer? Explain why or why not.
2. The marketing manager or product development manager is the marketing professional who oversees and manages the development of new products. Use library resources and the Internet to find out what a product development manager does. Search a job search Web site for jobs as a product development manager. Find a job that appeals to you. What are the qualifications? What tasks would you perform? Would you like this job? Explain why or why not.

Explore Careers

1. Industrial designers are key professionals in new-product development. Use library resources and the Internet to find out what an industrial designer does. Visit the Web site of the Industrial Designers Society of America (www.idsa.org). Click on the link "About ID" and then "Careers in ID." Read the "What Is ID Career Brochure." What skills and abilities does an industrial designer need? What kind of education and experience is required? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as an industrial designer. Look for jobs at companies with which you are familiar. List the companies and the type of

Connect to the Internet

1. Which cities are used most often for test marketing? Use an Internet search engine to find out. Use the keywords "cities used for test marketing." Explain which cities are used and why. If you were test marketing a new product, which city would you use? Why?
2. Have you seen the newest product designs? Use the keywords "best product designs of the year" in an Internet search engine. Look at the new products you find. Choose the one you like the best. Print a picture of the product. Describe the product and explain why you like it. Do you think it will sell well? Why?



After studying this chapter,
you will be able to

- list three elements needed for most production processes.
- explain why inventory is important during production.
- explain the difference between labor-intensive production and capital-intensive production.
- describe how computer technology is used in production.
- explain why holding inventory can be expensive.
- explain why sourcing and production are often done offshore.

Marketing Terms

mass production
manufacturing
sourcing
offshore sourcing
inventory
inventory control
labor-intensive goods
automation
capital-intensive goods
efficiency
benchmarking
computer-aided design (CAD)
computer-aided manufacturing (CAM)
robotics
offshore production

Imagine that your company has developed a new style of jeans. You have advertised these new jeans, and customers around the country are eager to buy them. You want these jeans to be sold in every K-Mart, Wal-Mart, and Sears store in the country. Each store will need the jeans in at least 20 sizes (10 for men and 10 for women). Each store will need from three to 20 pairs in each size. You will need thousands of jeans ready to ship to all the stores on a continuous basis. How will your company produce so many pairs of jeans? The company will start mass production of the jeans.

Production is one of the four business functions that you learned about in Chapter 2.

Production is any activity related to making a product. This chapter will focus on mass production. **Mass production** is the making of large numbers of identical products for sale to large number of customers, 24-1. Mass production was at the heart of the Industrial Revolution and provided the basis for the successful market economy in the United States. As you know, the term *product* includes goods, services, and ideas. This chapter will focus on the production of goods.



Reality Check

Look around you. Select a good that you see, and describe how you think it was produced.



Courtesy of Toyota Motor Corporation

24-1

Mass production is the making of a large number of identical products. These automobiles are coming off the assembly line at Toyota Motor Manufacturing, Indiana.

Overview of Production

What do you need to make a good? In Chapter 6, you learned that production is the process of taking inputs and turning them into outputs. *Inputs* is another term for materials. *Outputs* is another term for finished goods. *Production* is the process that the materials go through to become finished goods. Most production processes require three elements: (1) materials, (2) equipment, and (3) knowledgeable workers.

If you were to make one pair of jeans, here is what you would need: a jeans pattern, two yards of denim fabric, one spool of thread, a zipper, a button, scissors, pins, knowledge of sewing, and a sewing machine. The denim fabric, thread, zipper, and button are the materials, that is, the inputs.

The production process, even for one pair of jeans, is complex. An important requirement for most production processes is equipment. To make jeans, the equipment you need includes a jeans pattern, scissors, pins, and a sewing machine.

Another essential part of the production process is workers who know how to use the equipment to combine the materials to form the output. For jeans, it requires a person who knows how to sew and how to use a jeans pattern. This knowledgeable person uses the process of sewing and the equipment to turn the inputs into a finished pair of jeans, 24-2.

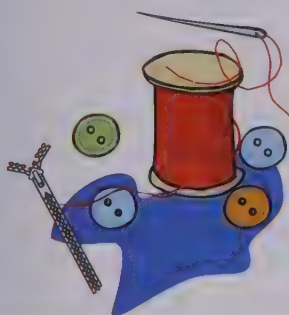
If you work in a large company, a department called the production department is responsible for the production process. A large-scale production process is also called **manufacturing**. Manufacturing usually takes place in large factories equipped with machines and run by many workers. Complex products are often manufactured at a plant. A *manufacturing plant* is a location that contains one or more large factory buildings related to the production process. For example,

Overview of the Production Process

Input → Process → Outputs

Materials

Denim, thread,
zipper, buttons



Knowledgeable Worker and Equipment

Worker uses scissors, pins, jeans pattern,
sewing machine to process materials



Finished Goods

Jeans



24-2

The production process has three basic parts, regardless of the product produced. Those parts are the inputs, the process, and the outputs.

manufacturing cars is complex. The Toyota Motor Manufacturing plant in Kentucky is about 7.5 million square feet, with a current investment of \$5.1 billion. Over 7,000 people work there. Over 400,000 vehicles and nearly 500,000 engines are manufactured at that plant in a year, 24-3.

The production process can be organized into three steps: (1) obtaining materials, (2) the production process, and (3) storage of goods.



Reality Check

Choose a good that you use, such as a cell phone, microwave, or backpack. List what you think are the materials, equipment, and knowledge required to produce this good.



Courtesy of Toyota Motor Corporation

23-3

The Toyota plant in Kentucky is about 7.5 million square feet and employs over 7,000 workers. Over 400,000 vehicles and nearly 500,000 engines are manufactured there in a year.

Obtaining Materials

For this discussion, assume that the jeans factory has already been built and equipped. Assume that the factory employs

the number of qualified workers it needs to run the factory. A certain jeans factory might make 800 pairs of jeans per day. Thus, the

factory would need 1,600 yards of denim, 25 industrial-size spools of thread, 800 zippers, and 800 buttons every day for production. How does the factory get all these materials?

Sourcing

In Chapter 18, you learned about *purchasing agents*, who make business buying decisions. These professional buyers must know a great deal about their company's manufacturing process and the materials needed. The process of finding and obtaining items needed for company operations is called **sourcing**. Companies that provide the items for production are called *vendors* or *suppliers*. They are the sources for the materials, as well as for equipment, manufactured parts, and other needed items.

At the jeans factory, the purchasing agents must source the denim fabric, thread, zippers, and buttons. The purchasing agents will seek the best quality materials at the best prices. The purchasing agent for denim might discover that the best and cheapest denim is available from a company in India. Buying items for company operations from a company outside the United States is called **offshore sourcing**.



Reality Check

Name something that you made recently, for example, a meal, a school report, or jewelry. List the materials you obtained. What were your sources? Were any of the materials manufactured in a foreign country?

Inventory

One of the challenges of purchasing is to make sure that all the materials are at the factory when they are needed. Suppose the factory has all the denim, zippers, and buttons it needs, but no thread. Production

cannot begin. Therefore, materials are often bought ahead of time and stored until needed.

Items held in storage are called **inventory**, 24-4. Purchasing agents must arrange for space to hold inventory until needed. A system must be set up to keep track of the inventory. The process of keeping track of all items held in storage is called **inventory control**.

Holding materials in inventory is expensive. The company paid a large amount of money to buy the items that are kept in inventory. The purpose of buying these materials was to manufacture products that would then be sold for profit. While items are held in inventory, they are not being made into products or sold to make money. For these reasons, it is important to have just the right amount of inventory. Incorrect levels of inventory cause financial losses to the business.

Too little inventory interferes with the production process. Materials are not available when they are needed. Production has to stop until all the necessary materials are obtained. In the meantime, the company has no jeans to sell. The company loses sales and profits. Customers may go to another



24-4

Any items held in storage are called inventory.

company for jeans, and they may decide they like the other company's jeans better.

Too much inventory can also cause financial losses. Suppose the purchasing agents bought too much denim, and it is piling up in the warehouse. The money used to buy the denim is "tied up" in inventory. The denim is not on the market making money as jeans. The warehouse may run out of space and have to rent more space to store the extra denim. The company now has the added costs of renting, heating, lighting, and keeping track of the extra inventory.

The wrong inventory also leads to financial losses. Suppose the jeans factory has purchased orange denim and has a large quantity in inventory. The orange denim jeans that have already been made are not selling well. The company has already paid for the orange denim, but it cannot use it. The orange denim represents a large amount of money that cannot be used to earn more money because the denim cannot be made into jeans that will sell. The orange denim in inventory represents a financial loss.



Reality Check

List places in your home that hold inventory for processes such as cooking. List places in your school that hold inventory for school processes. Think of some problems that might arise with the items held in inventory in these places.

The Production Process

The production process consists of the procedures to turn the materials into finished goods. People are essential to the production process. The people actually perform the production procedures. The people must have the knowledge to perform the production procedures.

Most production processes require tools, equipment, and technology. From prehistoric times, people have used technology to make production easier. Early technology included simple tools and animal power. Advanced technology includes fuel-powered engines and computers. Part of the drive to develop better technology is to make production easier and faster. In Chapter 6, you learned that machinery, factories, equipment, and tools needed for production are often referred to as *capital*. There are two categories of production process, based on whether the process requires more labor or more capital.

- **Labor-Intensive Processes.** Different goods require different numbers of people for the production process. Certain goods require handwork. In other words, the production process must be done by a person, not by a machine. These goods require many workers to make them. Goods that require mainly workers for production are called **labor-intensive goods**. For example, production of wedding gowns is labor intensive, 24-5. A worker must place the many layers of fabric properly and sew them together. A worker must place and sew on the lace, beading, and buttons by hand. Dresses that have more layers, lace, and beading require more handwork. The major production expense for companies that produce labor-intensive goods is labor. The costs of labor include wages paid to workers, benefits, and training.
- **Capital-Intensive Processes.** Other goods can be easily manufactured by machines, at an appropriate level of quality. **Automation** is the use of machines to perform tasks that were originally done by people. Automation is particularly good for precise, repetitive tasks. Automation enables the production of identical goods. For example, the cutting out of jeans from fabric is now automated. Goods that



245

Making a wedding dress is labor-intensive. A worker must place and sew by hand all the lace, beading, and buttons.

require mainly machines for production are called **capital-intensive goods**. The major production expense for companies that produce capital-intensive goods is capital. In this context, capital refers to equipment, including machines, tools, computers, and buildings.



Reality Check

Make one list of goods that require labor-intensive production. Make another list of goods that require capital-intensive production.

Productivity

Production is often the most expensive part of product development. This is especially true for goods that are mass-produced, such as cars, clothing, and appliances. Manufacturing companies must invest large amounts of money in building factories, equipping them, hiring and training staff, and ensuring the safety and health of workers.

In Chapter 8, you learned that one way to increase profits is to increase productivity. Productivity increases when the same number of workers using the same equipment produces a larger number of goods. This kind of increase in productivity occurs when efficiency is improved.

Efficiency is the degree to which something is produced without waste of time or materials. Efficiency often improves when the way a worker performs his or her task is improved, 24-6.

Productivity usually improves when a company switches from labor-intensive procedures to capital-intensive procedures. For example, a jeans factory might have a team of ten workers who cut the fabric. The factory manager might decide to replace the team of workers with an automated cutting machine run by two workers. The factory manager can let go eight workers. The automated cutting machine cuts many more jeans than the team of ten did.

It is true that machines are expensive to buy. However, the productivity and cost of machines must be considered over the long term. Machines usually “pay for themselves” after a period of time, such as five years. The machines produce goods faster than workers do, and are not paid wages. This saves the company more labor costs over a period of time than the amount of money it paid to buy the machines. In addition, machines can work around the clock without meal breaks!



24-6

When workers improve the speed and accuracy of their work, they improve their efficiency and their productivity.



Reality Check

Have you had an experience in which you improved your productivity? Describe the experience.

Quality

One of the elements of products that you learned about in Chapter 21 is quality. Production is the step where quality is created. The marketers will decide what level of quality a specific good should have. The marketers usually decide whether a good

will be premium, moderate, or value quality. The purchasers and the production process are responsible for ensuring that the required level of quality goes into the goods.

Quality must be balanced with cost. When higher quality is required, the cost to produce the goods is higher. In turn, this higher production cost raises the price for customers to buy the good. The quality of a good and its price must match the expectations of the target market. If the target market is not satisfied, the good will not sell. Top management works with marketing and production managers to make sure that the cost to produce a good balances the quality and selling price desired.

One aspect of maintaining quality is benchmarking. **Benchmarking** is the comparing of your company's goods, marketing, and production processes with the processes of the leading companies in your market. These leading companies probably have the best processes. Your company then adopts those processes and tries to improve on them. The competition that results from benchmarking results in more efficiency and better quality. More efficiency and quality often leads to more sales and more profits.



Reality Check

Have you had an experience with poorly manufactured goods? Describe the good and why it was of poor quality. What could be done to improve the quality? Would the improvement in quality drive the price too high for the target market?

Computerization of Production

Computer technology and automated equipment are revolutionizing many manufacturing processes. Use of these

technologies results in better quality, lower cost, and faster production.

Computer-Aided Design (CAD)

Before a good goes into production, it must be designed. The design phase is part of product development, but it has a large impact on the production process. New goods have to be designed in a way that is economical to manufacture. **Computer-aided design (CAD)** is the use of computers for designing goods, 24-7. Cars, boats, houses, clothes, toys, and many other goods can be designed using a computer program. CAD dramatically shortens the time it takes to develop a new good.

Computer-Aided Manufacturing (CAM)

Computer-aided manufacturing (CAM) is the use of computers to control production processes. Automated equipment must be controlled. That is, someone must monitor

the equipment and use technology to tell the equipment what to do. Before the development of CAM, if anything needed to be changed, a worker had to make the changes by hand. Now, a computer can be used to control the equipment.

Computerized production is more flexible. Computerized procedures can be easily and quickly changed at the computer keyboard. The programming is changed on the computer software; a worker does not have to go to the machine and make the changes by hand. For example, when books are being printed, there is a machine that controls the amount of colored ink that goes onto the paper. Before CAM, if there was too much blue on the paper, a worker had to go to the inking machine and move controls to change the amount of blue ink. Now, with CAM, the worker can sit at the computer and use keystrokes to change the amount of blue ink. The computer will relay the new instructions to the automated inking machine. The automated inking machine will put less blue ink on the paper. CAM lowers production costs, speeds the production process, and improves quality.

Automated equipment that is computer-controlled is more accurate than human workers. Quality is more uniform because the computer-controlled and automated machines do each process exactly the same way each time. New CAM procedures also combine higher production speeds with lower energy use, which also saves money.

One type of CAM is robotics. **Robotics** consists of equipment that can be programmed to automatically do mechanical tasks, with little or no input from human workers. Think of the robots in movies that pilot spaceships or clean house on their own. Robots in manufacturing usually do not look at all human. They are designed to efficiently perform a specific task. Robotics is used for repetitive procedures or for situations that can be hazardous to humans. Robots are widely used in the automobile industry, 24-8.



Photo courtesy of Lillian Vernon

24-7

These workers are using computers to design monograms on various items. Before computers, a person would have to design and sew each monogram. Now the computer can do the design and the sewing. As a result, the process is faster and cheaper.



Courtesy of Toyota Motor Corporation

24-8

This vehicle requires over 4,400 welds. Robots will perform 97 percent of those welds.

CAD/CAM Systems

CAD systems can be combined with CAM systems for all-electronic design and manufacturing. The CAD/CAM system can figure out the amount of materials needed to make the goods. It can also calculate production costs. CAD/CAM technology increases the ability to be creative. It also lowers costs for designing and manufacturing. CAD/CAM systems guide production from designing through production to the finished goods.

Storage of Goods

Imagine that the production of your new jeans has gone well. You have thousands of pairs completed. Goods that are completed and ready for sale are called *finished goods*. Your jeans are finished goods and ready for sale. What happens to them now?

There is usually some amount of time between the first pair of jeans to be finished and the last pair finished for a specific order. These jeans must be stored until they are ready to be shipped to a buyer. These finished goods become inventory. The process and problems of inventory for finished goods are similar to those for materials, discussed earlier in the chapter.

The production manager must arrange for space to hold the finished goods until they are sold. A system must be set up to keep track of all the finished goods in inventory. Holding finished goods in inventory is even more expensive than holding materials in inventory. Finished goods in inventory represent the cost to buy the materials plus all the costs of production, plus the cost of storage. When finished goods are held in inventory, they are not being sold to recover all those costs. They are also not earning a profit.

One of the goals of management is to coordinate production with customer demand. Marketing has a key role in this coordination. If the jeans are not selling, they will pile up in inventory. If the jeans are selling faster than they are being produced, the company will run out of inventory and have nothing to sell. Sometimes the managers make a mistake and produce large quantities of a good that does not sell. For example, suppose the jeans company turned all the orange denim into finished jeans before they realized that the orange jeans would not sell. The orange jeans in inventory represent a huge financial loss to the company because they are not selling.

Globalization of Production

As you learned in Chapter 13, globalization is the process in which economies of nations become interconnected and interdependent. The Internet, faxing, and

telecommunications enable you to buy and sell almost any product almost anywhere in the world. If you need to be somewhere quickly, with jet planes you can travel almost anywhere in the world in less than a day.

Production is an expensive part of developing and selling products. Companies constantly look for ways to reduce their production costs. When production costs are lowered, the company makes more profit. Two areas in which to reduce production costs are to lower the cost of materials or to lower the cost of workers. International trade and globalization provide ways to lower the cost of both, 24-9.

Lower Cost of Materials

As you learned in Chapter 12, nations trade with each other for several reasons. One reason is the unequal distribution of natural resources. Countries that have an abundance of a natural resource sell it to other countries that do not have that resource. For example, Columbia is one of the few countries that can grow coffee.



Photo courtesy of Apple Computer

24-9

With the Internet, faxing, and worldwide telecommunications, a production manager can search the globe for the best prices for materials and labor.

Columbia sells its coffee to the United States, which cannot grow coffee.

Another reason that countries trade is that some products are cheaper in certain countries. One reason is that the businesses in that country have specialized in making a certain product. They have developed the best and cheapest production processes, 24-10. This lower cost of products is especially important for complex production processes.

The production process for a complex good requires many manufactured parts. These manufactured parts are part of the materials needed to make the finished good. For example, an American computer company must have electronic components, such as memory chips, in order to complete production of each computer. Certain businesses specialize in manufacturing memory chips for computers. Because the company specializes in one type of product, it can produce it more cheaply and at a higher quality than many other companies can. Currently, businesses in Asia produce the best and cheapest memory chips. The American company might decide that it is



24-10

Some countries have specialized in making certain products better and cheaper. Recently, Asian countries have excelled at computer chips.

cheaper to buy memory chips from an Asian business, rather than make the chips itself or buy from an American business.

As a result, many products manufactured in the United States contain components made in foreign countries. Buying components and other materials from foreign countries is called **offshore sourcing**.

Lower Cost of Labor

Labor is a major part of the cost of production. Compared with most countries, the wages paid in the United States are high. Many countries have a lower standard of living than the United States. As a result, the wages paid to workers in many foreign countries are much lower. Therefore a business that wants to make a labor-intensive product would save a great deal of money by making that product in a country where the wages are lower than in the United States.

At the beginning of the twenty-first century, there are many countries with lower wage rates than the United States. These countries include China, India, Mexico, and many others. Wages are so much lower in these countries, that many American companies move their entire production departments to those countries. Manufacturing that is done in a foreign country is called **offshore production**. Production that is done in the United States is called *domestic production*. Because of offshore production, goods made by an American company may have actually been produced in a foreign country.

Challenges of Offshore Sourcing and Production

The major challenge of offshore sourcing and production is distance, 24-11. The farther away the country, the longer it will take for materials and goods to travel. The expense of transporting materials and goods also increases with distance.



24-11

One of the major disadvantages of offshore sourcing and production is distance.

When sourcing from distant countries, such as China, production planners have to take into consideration lead time and response time. *Lead time* is the amount of time ahead of the due date that materials or goods must be ordered. *Response time* is the amount of time it takes the factory to produce and deliver the goods after the order is placed.

Because of long lead times and response times, goods and materials that are needed quickly or by a specific date are not good candidates for offshore sourcing or production. For example, printing is very cheap in Asia. However, for a daily newspaper, the lead and response times would be too long. Products that are not needed in a timely fashion are more suited to offshore sourcing and production. For example, it is much cheaper to print a full-color coffee table art book in Asia. It makes more sense to produce this type of publication offshore.



Reality Check

List products that would be good candidates for offshore production. List products that would not be good candidates for offshore production, and explain why.

CHAPTER 24 REVIEW

Remember This

- Most production processes need (1) materials, (2) equipment, and (3) knowledgeable workers.
- Materials obtained for production often have to be held in inventory until they are needed.
- The major expense for labor-intensive production is labor (workers). The major expense for capital-intensive production is capital (equipment).
- Computer technology is used in production to make processes better in quality, lower in cost, and faster.
- Materials and goods held in inventory are not being sold; therefore, they are not earning a profit for the company.
- Offshore sourcing and production occurs because materials and labor are often cheaper in other countries.

Review Concepts

1. Draw a diagram that shows an overview of the production process.
2. What is the difference between production and manufacturing?
3. Where do companies get the materials they need for production?
4. Why does a manufacturing company need inventory control?
5. Why is it expensive to hold items in inventory?
6. What is the difference between labor-intensive goods and capital-intensive goods?
7. Describe one way that businesses often use to increase productivity.
8. When is quality created in a product?
9. Explain the difference between CAD and CAM.
10. What are the advantages of CAM?
11. What do you call goods that are complete and ready for sale?
12. Why do some companies use offshore sourcing and offshore production?

Think Critically

1. Why can having too little of your materials in inventory cause financial losses?
2. Describe a labor-intensive job that has been replaced by a machine or computer.
3. Why would a company want to increase efficiency and productivity of the production process?
4. Why would a company want to use benchmarking?
5. Name three businesses that are leaders in their fields and might be used for benchmarking.
6. Why are finished goods that are held in inventory more expensive than raw materials held in inventory?
7. What is the role of marketing in production?
8. Many companies move their manufacturing overseas for the savings in labor cost. Why might a company decide not to move its manufacturing overseas?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out whether the company has a production department. What is produced? Is the process labor- or capital-intensive? Find out if CAD or CAM is used.
2. Some businesses put their production process on display. For example, some bakeries let you watch donuts being made. Some restaurants put the food preparation on display. Find a company in your area that displays its production process. Describe the materials, the production process, and the finished goods. Are any of the steps computerized? What additional demands are placed on production when it is on display?

Explore Careers

1. The production manager is critical to the success of the mass production of goods. Read the article "Industrial Production Managers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What does a production manager do? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a production manager in manufacturing. Explore the jobs available. Choose one that appeals to you. What would a typical day be like? What are the qualifications for this job? Would you like this job? Explain why or why not.

2. Another essential professional to the production of goods is the industrial engineer. Read about industrial engineers in the *Occupational Outlook Handbook*. Visit the Web site of the Institute of Industrial Engineers (www.iienet.org). Click on the links "Student Center" and "Career Center." What do industrial engineers do? Why should someone in the marketing of goods be interested in the work of industrial engineers? View industrial engineer jobs listed on the IIENET Career Center and a job search Web site. Find a job at a company familiar to you or select a job that appeals to you. What would you do on this job? What are the qualifications for this job? Would you like this job? Explain why or why not.

Connect to the Internet

1. Search the Internet to find information about outsourcing in American companies. Which companies outsource production? Make a list of these companies. Have there been problems with outsourcing? Visit some of the companies' Web sites. Click on their links for "Workers' Rights," "Corporate Responsibility," and "News" to learn what these companies are doing about the problems.
2. Use the Internet to find out about the "Apparel Industry Partnership."
3. One of the most widely used programs for computer-aided design is AutoCAD. Visit the Web site of Autodesk, USA, the maker of AutoCAD (www.autodesk.com). Find out how various companies use AutoCAD. Visit the design gallery on the Web site.

Marketing Terms

product mix
product management
product line
product category
product life cycle
industry sales
saturated market
retailer
global strategy
adaptation strategy
customized strategy

After studying this chapter,
you will be able to

- describe a company's product mix.
- explain the role of a product manager.
- describe the stages in the product life cycle.
- explain why product mix is especially important for retailers.
- explain why marketers need to know the life cycle stage of a product.
- describe three basic strategies for foreign markets.

Many businesses sell more than one type of product. (Remember that products include goods, services, and ideas.) All the types of products that a company sells are called the **product mix**. Some large corporations have thousands of products. Developing strategies for a company's product mix is called **product management**.

Product Lines

A company's products are usually organized into product lines. A **product line** is a group of similar products, made by one company, 25-1. For example, Procter & Gamble (P&G) markets over 250 products. These products are organized into 21 product lines. For example, one of the product lines is dish care. There are four products in this



Photo courtesy of IGA, Inc.

25-1

IGA has many product lines, for example, carbonated beverages and fabric care products.

line: Cascade, Dawn, Joy, and Ivory. Service businesses also have product lines. For example, Enterprise Rent-a-Car has four product lines: car rentals, car sales, fleet management, and Enterprise merchandise.

All of a company's products and product lines must be managed. The person managing all the products may be the *director of marketing* or the *product manager*. A person who manages one product line is called a *product line manager*. Some companies have brand managers. The *brand manager* manages all products that have the same brand name.

Anyone who manages more than one product must consider the effect of each product on the others. For example, a beverage company makes a popular cola drink. That company decides to develop a new fruit drink. Will the new fruit drink take customers away from the cola drink? The role of the product manager is to understand all the products in the product mix. He or she then develops strategies to make sure each product and product line is successful.

When products in general are discussed (as opposed to the products of a specific company), the term product category

is often used. A **product category** is a group of similar products made by many companies. For example, running shoes is a product category. Examples of other product categories include gasoline-powered automobiles, cellular phones, in-line skates, VCRs, and digital music players. Some companies call their product lines "product categories." The names for product lines and product categories are often the same. For example, P&G has a product line called "dish care." On its consumer Web site, "dish care" is under a heading "Choose a Category." In a general discussion of products, dish care is a category of products made by many companies.



Reality Check

Think about a product manufacturer that you are familiar with, such as Sony or Hershey's. Name some of the company's product lines.

Product Life Cycle

Products go through a life cycle similar to the human life cycle. At the individual level, each human being is born, grows, reaches maturity, then ages and eventually dies. Similarly, an individual product goes through a life cycle.

At the group level, human societies go through a cycle of birth, growth, maturity, and death. For example, the Roman Empire began as a small group of shepherds, grew, then reached maturity as the powerful Roman Empire, and then began to decline. The Roman Empire ended when it was defeated by invaders. Similarly, a product category (that is, a group of products) goes through a life cycle.

A **product life cycle** consists of the stages that a product or a product category goes through from its beginning to its end. The

four stages are (1) introduction, (2) growth, (3) maturity, and (4) decline.

During decline, some products are discontinued. Product categories often decline when new technology comes along. For example, a classic product category is the typewriter. It was introduced in 1868 and grew through the late 1880s, 25-2. During the 1900s, the typewriter reached maturity. In the 1970s, the computer was introduced. As the computer grew and matured, the typewriter product category declined. Typewriter sales are at an all-time low; however, the typewriter has not yet died.

An example of an individual product in the typewriter category is the Smith Corona. Smith Corona brand typewriters went through introduction, growth, and maturity. When computers began taking over sales that used to go to typewriters, the Smith Corona brand typewriter began declining.



25-2

The typewriter was introduced in 1868. When computers were introduced, the typewriter category declined. However, the life cycle of the typewriter is not yet over.

The Smith Corona brand typewriter is no longer manufactured and has completed its life cycle. However, the typewriter product category is still around and other brands are still being produced.

The stage in the life cycle of a product is based on all the sales of that product, including all brands and generics. All the sales of a product are often referred to as **industry sales**. For example, to determine the life cycle of cell phones, you would gather industry sales information for cell phones from the time they were introduced to the present.

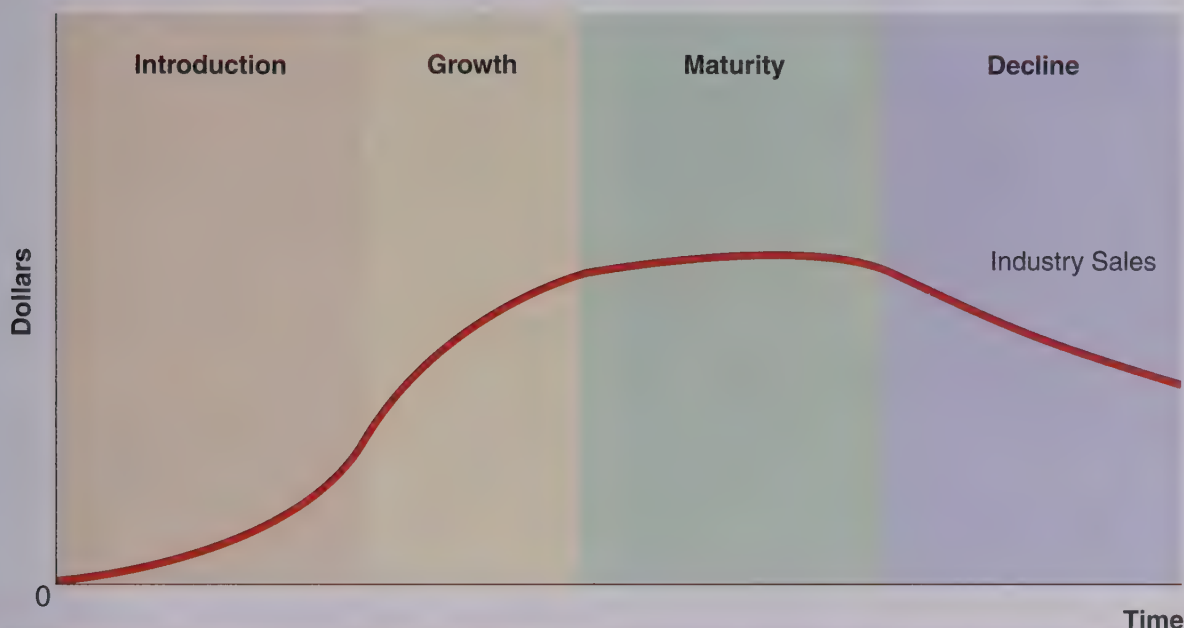
The product life cycle is often shown in a graph, based on industry sales of that product. The graph plots sales on the y -axis and time on the x -axis. Based on the graph you can see the four stages of the product's life cycle, 25-3. The length of each stage varies, depending on the product. The length of the entire life cycle also varies with the product. For example, Ivory Soap was first sold in 1879, and it is still a strong seller. Ivory Soap has a long life cycle. The Pet Rock sold only during the gift-giving season of 1975. The Pet Rock had a very short product life cycle. A product with a very short life cycle is called a *fad*. Profits can be made at each stage of a product's life cycle. However, the marketer has to know how to market the product at each stage.

In the same time period, different products are in different stages of their life cycles. For example, hybrid automobiles are in the introduction stage. Cellular phones are in the growth stage. In-line skates are in the maturity stage. Music audiocassette tapes are in the decline stage.

Introduction

The last step of new product development is actually the first stage of the product life cycle: introduction. Introduction (commercialization) is the stage during which a new product is presented to the market.

Stages of a Product Life Cycle



25-3

The curve on this graph shows the rise and fall of industry sales for a product (in dollars) over time. The stages of the product's life cycle are based on the shape of the curve, which represents changes in the number of sales.

At this time, few if any customers know about the new product. The goal of marketing at this stage is to let customers know about the product. Marketing focuses on promotion that explains the product. Promotion informs customers about the product, explains its benefits, and persuades customers to buy. A good example is in-line skates. Before 1984, few people knew about in-line skates. Then the Rollerblade Company began marketing in-line skating as a new and cool sport, 25-4. To gain customer notice and get customers to try the new skates, free Rollerblade in-line skates were given to the rental shops along trendy Venice Beach in California.

At the beginning of the introduction stage, sales are zero and profits are below zero. Why are profits below zero? Profits are negative because the company has already spent a significant amount of money on

market research, product development, production, and promotion. The expectations are that this money will be recovered and profits will be earned as the product begins to sell and the life cycle progresses, 25-5.

Growth

It takes a while for a new product to "catch on." Some products catch on quickly. Others take more time. Some products never get off the ground. The growth stage of a product is defined as the stage during which sales and profits are rapidly rising.

As the product becomes more successful, competitors enter the market. Now there are many companies competing for customers. During the growth stage, marketers focus promotion on distinguishing their brand from the competitors. They also focus on building brand loyalty. In addition,



Photo courtesy of Rollerblade

25-4

When Rollerblade introduced in-line skates, they focused promotion on in-line skating as a cool sport.

marketers may focus on adding features and benefits to their product to distinguish it from the competitors'.

In the life cycle of a product category, one producer usually takes the lead in introducing, marketing, and selling the new product. For the in-line skate category, that leader was Rollerblade. Once Rollerblade made in-line skates popular, competitors started entering the market. There are now several competitors, including K2 and Hypno Skates.

Maturity

A product category or product reaches maturity when sales begin to level off. Why do sales level off? The sales level off because the market has become saturated. A **saturated market** is market in which most of

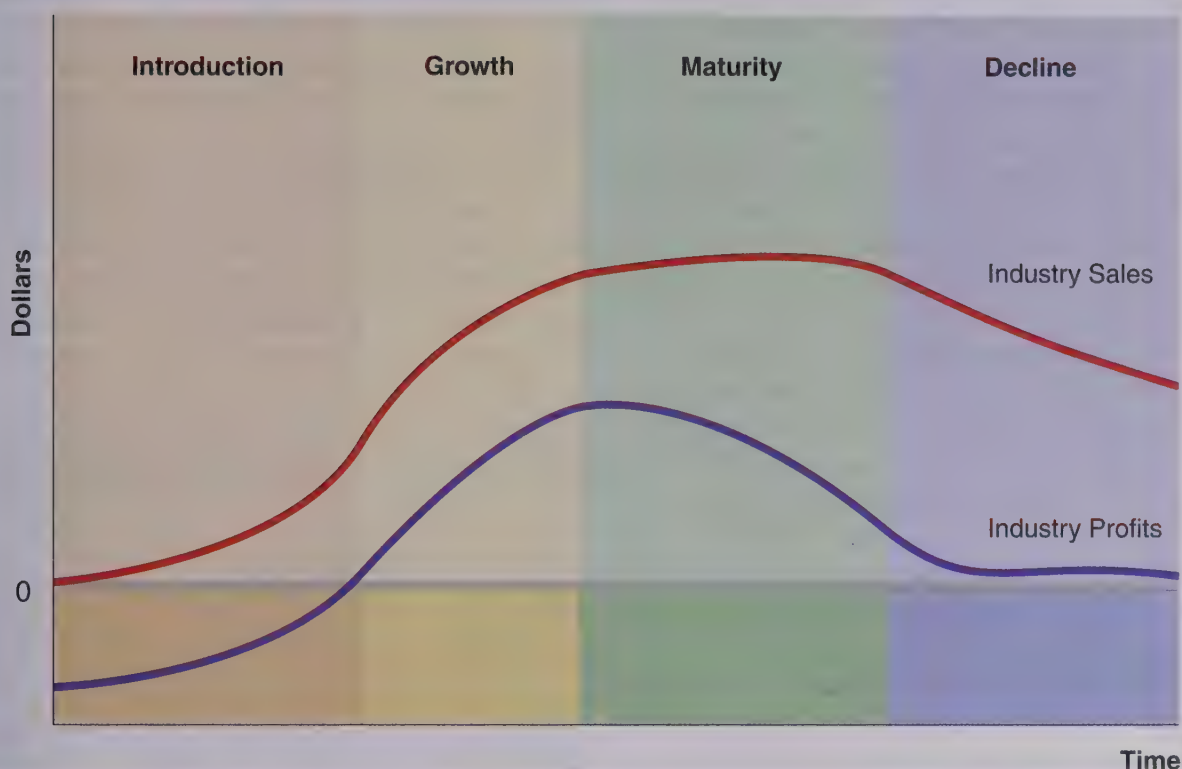
the potential customers who need, want, and can afford a product have bought it. Think of a sponge that has soaked up all the water it can hold. That sponge will not absorb more water unless it begins to dry out. Likewise, no more people will buy in a saturated market unless their current product wears out, or new customers are born and enter the market. In the in-line skate category, once all the people who want to skate have bought their first skates, they do not need new ones for quite a while.

During the maturity stage, competition among brands is intense. Marketers continue to use promotion to distinguish their brands from competitors and build brand loyalty. Often, marketers develop and market improvements that make their product better than the competitors' products. For example, improvements in in-line skates included a braking system and more comfortable boots, 25-6.

During this stage, marketers also look for ways to keep the product from declining. Marketers may develop new uses for the product. A classic example is Arm & Hammer Baking Soda. Originally, baking soda was an ingredient in baked goods made from scratch. As fewer people were baking from scratch, the sales of baking soda declined. Through market research, Arm & Hammer realized that some customers were using baking soda to deodorize refrigerators, clean rugs, and brush their teeth. Arm & Hammer began to market their baking soda as an essential cleaning product. Sales began to rise.

Another way to prevent decline is to search for new markets that currently do not have your product. This search often leads marketers to expand into foreign markets. Often countries in other parts of the world do not yet have products that are popular in the United States. However, before launching a product in a foreign market, marketers must perform market research to ensure that there is a market. For example, when Pop Tarts

Profits Over the Product Life Cycle



25-5

This graph shows how industry profits change over the life cycle of a product. Notice that during the introductory stage, no profit is being made.



25-6

During the growth phase of a product, many competitors enter the market. During the maturity phase, competition is intense.

were introduced into England, they did not sell well. Why? Pop Tarts did not sell well because few people in England own toasters.

Decline

A product category or product enters decline when sales begin to fall. Decline often occurs when a new technology is growing. For example, the product category of music audiocassette tapes started declining when the new CD technology started growing. When a product category starts declining, marketers have to decide what to do about it. They can develop marketing strategies to boost sales. Alternatively, they can discontinue the product. In the case of music audiocassettes, there is still a viable market.

Marketers have to be careful when they evaluate an individual product. Many factors affect the sales of an individual product. Deciding whether a product is at the end of its life cycle can be particularly tricky. A decline in sales may not indicate that the product is in the declining stage of its life cycle. For example, if there is a recession in the economy, car sales go down. However, that does not mean that cars are at the end of their life cycle.

Some businesses specialize in products that are in their declining stage. For example, discount stores often buy large amounts of discontinued products for a low price. However, they can still sell these products for a price that will earn them some profit.

Knowing the life cycle stage of the product and product category helps marketers develop effective marketing strategies. Often, different markets are targeted at different stages of the life cycle. Different marketing mixes work better at different stages of a product or product category's life cycle. For example, during introduction, prices are often high. During maturity, the price is lower. During decline, the price is often lowest.



Reality Check

Name three products that you buy or use often. What stage of the life cycle do you think each one is in? Why?

Product Mix for Retailers

Product mix takes on a special meaning in the retail setting. A **retailer** is a business that buys products to resell to final consumers. The department store, convenience store, and grocery store are typical retailers. They buy goods to resell to

customers. The main service that retailers provide is a variety of products in one store. For a retailer, the *product mix* is the variety of products that the store carries. As a result, the product mix is critical to the success of a retailer, 25-7.

Some of the largest retailers in the United States are Wal-Mart, Target, Sears, Dayton Hudson, Kroger, J.C. Penney, and Safeway. One of the keys to success in retailing is the selection of products to offer for sale. The person who decides which products to offer is called a buyer. Other terms for this person are *purchaser*, *purchasing agent*, and *merchandiser*. The buyer must know



25-7

For a retailer, the product mix is the variety of products that the store carries. The buyer must make sure that the store carries the goods that the customers want and expect.

the store's target market, trends, product availability, and product costs. The buyer is responsible for choosing the products that the store will carry. The buyer also has to make sure that there is enough of each product to meet customer demand.

For example, suppose you go to your favorite clothing store to buy a pair of jeans. You ask for your favorite brand in your size. The salesperson says that they are out of your size. You will be disappointed. You might go to another store to find your size.



Reality Check

Name a retail store that you like. Describe the variety of products that it offers.

Strategies for Foreign Markets

When markets are saturated at home, many companies look for new markets abroad. Most foreign markets have cultures that are very different from U.S. culture. The product manager often has to make sure that products sold in foreign markets meet the needs of those markets.

The product manager also has to make sure that the product respects the foreign market's culture. Sometimes the product can stay the same, and other aspects of the marketing mix are changed. Sometimes changes must be made in the product itself as well as in the other Ps. Product managers can choose from three basic strategies for foreign markets: (1) global strategy, (2) adaptation strategy, and (3) customized strategy.

Global Strategy

A **global strategy** consists of one marketing mix that is used with minimal changes in all markets. This approach is

very similar to the mass-market strategy. In order for this strategy to work, the product and the promotion have to appeal to many consumers throughout the world. In fact, there are very few products for which a global strategy works. However, a global strategy has many advantages. First is worldwide recognition of your brand. Second is savings in production and promotion costs. These savings occur because the same product, labeling, packaging, and promotions can be used over and over, and in large volume. It is cheaper to produce a million of the identical product, than a thousand each of a thousand different products. (This fact of production is called *economies of scale*.)

The most well-known product with a global strategy is Coca-Cola. Coca-Cola is sold in 195 countries. The Coke product is the same in all markets around the world. The packaging is almost the same. The promotions are basically the same, usually just translated into the country's language. (However, the Coca-Cola Company does develop a variety of beverages, some to meet the specific tastes of another country.)

Adaptation Strategy

The **adaptation strategy** involves making changes in product or promotion or both to meet the target market's culture, needs, and wants.

For example, when McDonald's expanded into India, it ran into a major cultural difference, 25-8. More than 80 percent of the Indian population is Hindu. The Hindu religion considers cows to be sacred animals. Most Hindus do not eat beef. Many eat no meat at all. Clearly, McDonald's could not serve Big Macs in India!

McDonald's adapted its menu to meet the needs of the Indian market. When you look at the Indian McDonald's menu, you can still tell that it is McDonald's. However, there is no beef or pork in any of the items.



25-8

When an American company expands into a foreign country and culture, it must be aware of the differences and learn what the new customers need and want.

Also, the sauces and soft serve desserts have no eggs. New items have been developed using spices that Indians like. Examples of Indian menu items include McVeggie Burger, McChicken Burger, and Paneer Salsa Wrap.

The French perfume company, Guerlain, decided to sell its perfume, Champs-Elysees, in the United States and the Middle East. No problem in the United States—French and American cultures are pretty similar in terms

of perfume use and promotion. However, the Middle East is different in many ways. For example, dress codes for women are very strict, and even westernized women dress much more modestly. The ad with a French model in a strapless evening gown would offend many potential customers in the Middle East.

In situations like these, the product remains the same, but the promotion is modified to meet the attitudes, preferences, or needs of the target market. Guerlain placed a coat on the model's shoulders, and she held a bunch of roses in front of her, for a more modest look.

Customized Strategy

The **customized strategy** involves developing a totally new product to meet specific target market needs. For example, suppose that you are an executive for a home appliance company. You want to enter the market in several developing countries. However, the majority of homes in these countries do not have electricity. Therefore, none of your current appliances will work in those countries.

In situations like these, you must make a new product to meet the specific needs of this target market. You would develop appliances specifically for these markets, for example, a manually operated washing machine.

In this situation, you lose the economic benefit of economies of scale. However, because your market research showed that the potential market is quite large, you know that this customized approach will be profitable. Your brand will also become well known, so when the market gets electricity, the customers will be ready to buy your electric models.



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People everywhere have many things in common. However, there are usually many cultural differences. When you market to a new culture, you must decide which strategy to use: global, adaption, or customized.

CHAPTER 25 REVIEW

Remember This

- A product mix consists of all the types of products that a company sells.
- The product manager develops strategies for all the products in the product mix.
- There are four stages in the product life cycle: (1) introduction, (2) growth, (3) maturity, and (4) decline.
- The stage of a product's life cycle is determined by the level of sales.
- The mix of products that a retailer offers is critical to its success.
- Knowing the stage of the product and product category helps marketers develop effective marketing strategies.
- Three basic strategies for foreign markets are (1) global, (2) adaptation, and (3) customization.

Review Concepts

1. What is the difference between a product mix and a marketing mix?
2. What is the difference between a product line and a product category?
3. Give an example of a product category.
4. List the four stages in a product life cycle.
5. What does marketing focus on during the introduction stage of a product?
6. What often happens during the growth stage of a product, especially if the product is very successful?
7. What does marketing focus on during the growth stage?

8. How do you know when a product has reached the maturity stage?
9. Why do sales level off?
10. What does marketing focus on during the maturity stage?
11. List two ways that marketers often use to keep a product from declining.
12. Does a fall in product sales always mean that the product has entered the decline stage of its product life cycle? Explain your answer.
13. Why is the selection of products to include in the product mix so important for retail stores?
14. List three basic strategies for foreign markets.

Think Critically

1. If you had a job as a product manager, what would your job entail?
2. Imagine that you are the marketer for the company that developed the first cell phone for commercial sale. How would you promote it?
3. Imagine that you are the marketer for a company that sells in-line skates. This product is in the maturity phase. What would you do to promote the product and keep it from declining?
4. How does price usually change as a product goes through the product life cycle?
5. Why might a company want to buy products that are in the decline stage?

CHAPTER 25 REVIEW

6. Imagine that you are the buyer for a local convenience store. Which products do you think should be in the store's product mix? Name each product category and explain why the store should carry it.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what product lines or product categories the company sells or produces. Find out what stage of the product life cycle each product line is in.
2. Visit a fast-food restaurant or visit its Web site. List all the products on the menu. Organize the products into product lines. Make a chart or a poster that presents the product lines of this restaurant. What do all the products in each product line have in common?

Explore Careers

1. Read the article "Advertising, Marketing, Promotions, Public Relations, and Sales Managers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Based on this article, what does a marketing manager do? What are the general requirements for all these marketing management positions? How are most management positions filled?

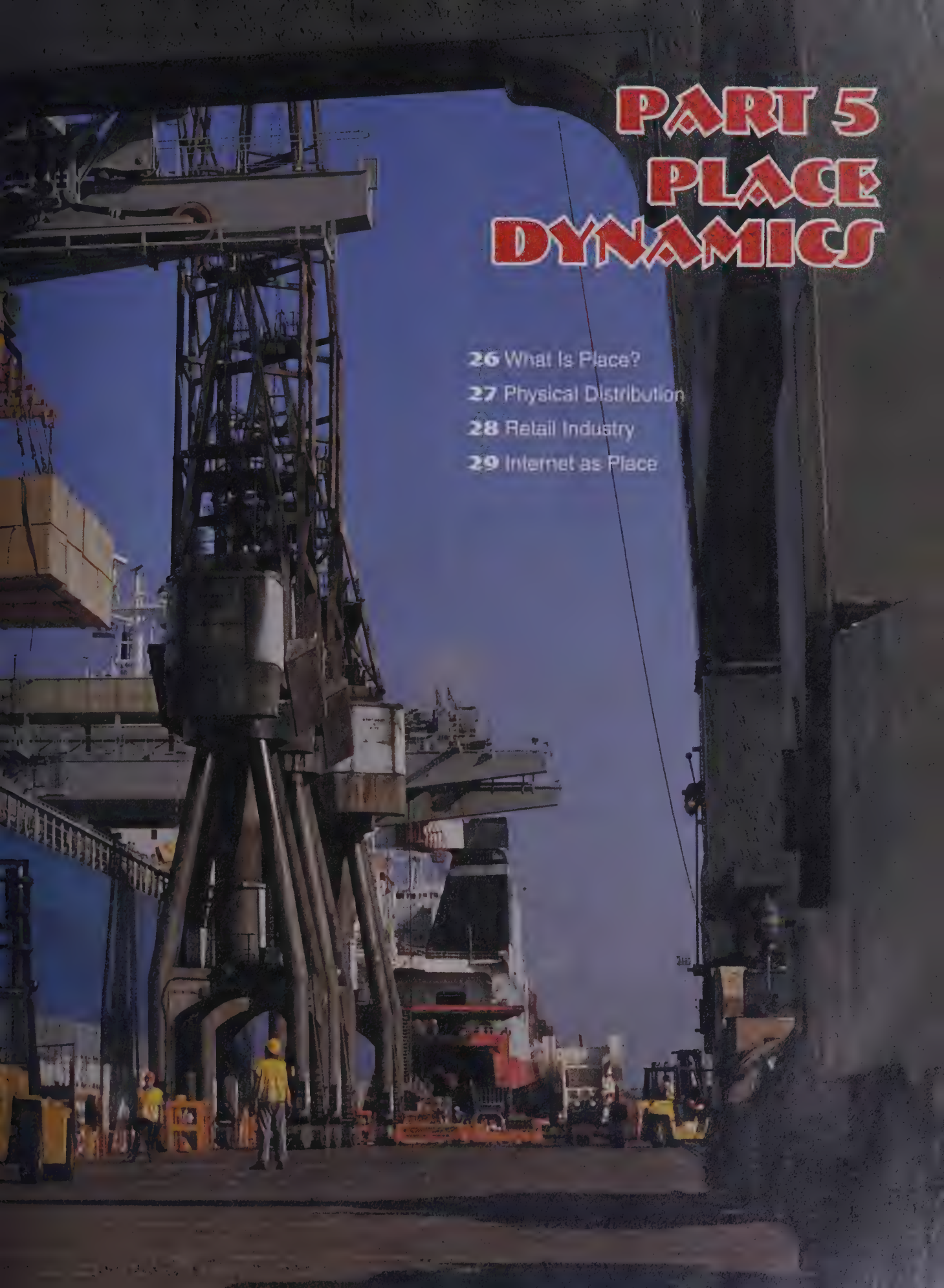
2. Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a product manager or product line manager. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Think of a product that you use every day that was once a new technology, for example, telephone, cell phone, television, or automobile. Research this product on the Internet. Find out when the product was invented. Who invented it? Why? How was it promoted?
2. Visit the Web site of a company that manufactures a large number of consumer products, such as Procter & Gamble, Kraft, or General Electric. List their product lines and the individual brands in each line. Do they have a different line of products that they sell in foreign countries?
3. Visit the Web site of the Product Development & Management Association (www.pdma.org). How can membership in this organization help you in a career in product development and management? Click on the link for "Visions Magazine." Browse through several recent articles. Choose one of the articles. What did you learn about new product development (NPD) or product management from this article?



How do products
get to customers?



PART 5 PLACE DYNAMICS

26 What Is Place?

27 Physical Distribution

28 Retail Industry

29 Internet as Place



After studying this chapter,
you will be able to

- list four decisions covered by the place P of the marketing mix.
- name the two main considerations for choosing a business site.
- describe the qualities of a good retail site.
- explain what a channel of distribution is.
- explain the difference between a wholesaler and a retailer.
- describe three main functions of intermediaries.
- explain why manufacturers use intermediaries.
- describe the transfer of ownership through a channel of distribution.

Marketing Terms

site
market coverage
channel of distribution
intermediaries
wholesaler
channel member
nonstore retailer
supply chain
agent
broker
direct distribution
indirect distribution
facilitate
bulk-breaking
title

Imagine standing in front of your school. Your school is in the business of educating young people. Education (a service) is the school's product. You and the other students are the consumers. What place decisions were made for your school, 26-1?

The first place decision was location. The school is not located in a wheat field. It is located in a community that has many school-age children. Another place decision concerns hours that the school is open. The school is open during scheduled classes and before and after school for clubs, sports, and other projects.

Now think of the goods that are in your school, for example, books, desks, posters,

**26-1**

What place decisions were made for your school?

and bulletin boards. Each of these goods was produced at a different location. Now these goods are all at school where and when you need them. These goods are here because of the place decisions made by marketers.

Place Decisions

Place is one of the Four Ps of the marketing mix, 26-2. As you learned in Chapter 1, *place* is the term for marketing activities involved in making products available to customers. It includes distribution.

**26-2**

Place decisions are critical to the success of a product. Place decisions include determining when, where, and how products get to customers. Distribution and retailing are often part of place decisions.

Place decisions involve determining when, where, and how products get to customers. An important part of the place decision is determining where products should be offered and how to get the products to those places. Place decisions also include making sure there are enough quantities of products available. Successful organizations make sure their products are in the right place at the right time and in the right quantities. Then their customers can buy or use them. Goods, services, and ideas require place decisions. Consumer products and business products require place decisions.

In order to make good place decisions, marketers need to know where and when customers use their products. Marketers study the buying habits of their customers to determine the most convenient and efficient locations to sell their products. They analyze

how they can make their products available at the best place and the best time. By doing this, marketers are providing both *place utility* and *time utility*. In other words, products are available at convenient places and at convenient times for customers. Marketers also make sure that enough products are available. If customers arrive at a store, but your product is out of stock, the customers cannot buy your product. Customers might then take their business to competitors.

Place decisions include answers to questions about the following issues: (1) location of the business, (2) hours of operation, (3) channels of distribution, and (4) transportation. Location, hours of operation, and channels of distribution will be discussed in this chapter. Transportation will be covered in Chapter 27. Retailing, which represents the most common place issues for consumer goods, will be discussed in Chapter 28. Chapter 29 will discuss the Internet as place.



Reality Check

Name a product that you use often. Where do you buy it? List the place decisions that you think were made for this product.

Location Decisions

When you need a pen, where do you go? When you want a burger, where do you go? If you are like most people, your first choice is probably the closest place that sells it. The location of a retail store or restaurant has a huge influence on the success of the business and the satisfaction of its customers. Consumer businesses should be located where customers are. For example, surfboard shops are located near beaches used by surfers, 26-3. Fast-food restaurants are located along highways and in large



26-3

Stores are likely to be successful if they are located near customers who want what they sell. A surfboard shop would be located near a beach used by surfers.

shopping malls, where large numbers of people pass by. Doctors often offer their services near hospitals, where the patients are. Political candidates, offering ideas, locate their campaign headquarters near voters.

Location is also important for companies that sell to businesses. For example, an office supply store will be located in the business district of a city. Office supply stores are not usually found in a farming area. A business that supplies auto parts should be close to an automobile factory.

Site is another term for location. Site is important for all businesses. What do companies have to think about when they choose a site? There are two main considerations. First, they must be located in a place where they can easily get the *inputs* (materials and supplies) for the business. Second, they must be located where they can easily get the *outputs* (products) to customers.

Retail Site Selection

The site of a retail store is key to attracting enough customers to make a good profit. Retail stores must be near their target market customers. Shoppers must walk through their doors to buy their goods. Aspects of retail site selection include location, market coverage, and hours.

Location

Marketing research is done to determine where the largest numbers of potential customers are located. Marketers often look back at the data they collected when they were segmenting the market. They look for geographic areas that are growing. In other

words, more people and more money should be coming into the area. Marketers also look at the competition. If the store will be selling shoes, are there already too many shoe stores in the area? If the answer is yes, the marketer may look for another site.

Some stores are large enough, have advertised enough, and are well known enough to draw customers on their own. Wal-Mart stores are often at a site by themselves. Other stores do better grouped together in a mall. Malls benefit both retailers and customers. Shopping malls attract a large number of customers. The benefit of a mall is one-stop shopping for customers. The customers go to one location and can shop at several different types of stores, 26-4.



Photo courtesy of The Mills Corp.

26-4

Malls benefit both retailers and customers. Shopping malls attract a large number of customers. Customers benefit by the variety of stores available.

What makes a good site for a retail store? The site should be (1) easy to get to, (2) visible to passing traffic, and (3) safe. Major shopping malls are often located where two main roads intersect. Cars should be able to easily get into, park, and exit from the site. If the site is in a city, it should be close to public transportation. The site should also be safe from crime and other dangers.



Reality Check

Name your favorite retail store and the types of products it sells. Who is the target market for this store? Is this store located at a good site? Explain your answer.



Reality Check

What type of market coverage does your favorite retail store have? Name a store in one of the other two coverage types.

Market Coverage

Another site decision is how many stores to have. **Market coverage** refers to the number of stores a retailer chooses to have in a specific geographic area. The three levels of retail market coverage are the following:

- **Intensive Market Coverage.** A retailer has as many stores as possible in one market area. For example, Starbucks has intensive market coverage in Seattle. Starbucks stores are often located fairly close to each other. Starbucks might be located in each major shopping mall, in all the smaller strip malls, and on many street corners.
- **Selective Market Coverage.** A retailer has just enough locations to adequately serve the target market. Selective market coverage usually means several stores in a market area. A selective retailer might locate one store in each major shopping mall. For example, Old Navy has a selective market approach.
- **Exclusive Market Coverage.** A retailer has only one store to serve the entire market area. Upscale specialty retailers

use this approach. For example, there is only one Rolls Royce-Bentley automobile dealer in the Chicago area. These types of retailers can use the exclusive approach because their customers are willing to travel quite a distance for these special products.

Hours

Another decision considered to be part of the place P is store hours. Which days of the week and which hours will the store be open? The answer depends on the type of retail business and demands of the market, as well as state and federal laws regarding operating hours. Some grocery stores stay open around the clock. Clothing stores often open at 10:00 a.m. and close mid-evening. Upscale dinner restaurants may be open from 5:00 p.m. until midnight, Tuesday through Sunday.

A mail-order retailer does not have a store. This business does not need to be close to customers because this type of retailer reaches customers in their own homes, through mail, by telephone, or by Internet. The mail-order retailer provides convenience by providing toll-free numbers and customer service representatives, 26-5. Many have customer service representatives 24 hours a day. In addition, the mail-order retailer may provide a Web site, which is also available 24 hours a day. The office of the mail-order retailer should be near excellent shipping facilities to get products to customers quickly and cheaply.

**26-5**

Mail-order retailers offer customers the convenience of ordering from home by mail, phone, or Internet.

**Reality Check**

Have you ever visited a store, just to find that it was closed? Name the store and its products. Which hours is it open? Which hours do you think it should be open? Why?

Site Selection for Other Businesses

Manufacturers have different location needs from retail businesses. One of the manufacturer's major costs is transporting raw materials and supplies (production inputs) to the factory. As a result, most manufacturers locate in places where the manufacturing input can easily reach them. They also need to have access to good transportation, so the finished products can quickly and easily be delivered to customers. Manufacturers also need to be located in areas where there are enough workers for the factory.

For example, cereal manufacturers such as Post and Kellogg are located in Michigan. One of the major inputs for cereal is grain. Michigan has many grain farms. Many workers are available in the cities of Michigan. Grain processing equipment suppliers are located there, too. After the manufacturers produce the cereal, their output is shipped to grocery stores throughout the world.

Manufacturing companies in the same industry are often located near each other. For instance, pewter and silver manufacturers are concentrated in Rhode Island. They located there long ago, to be near sources of precious metals (their input). Rhode Island is also close to East Coast transportation systems to send their output to stores. Many pewter and silver manufacturers are still located in Rhode Island.

Geographic concentrations of manufacturing industries are efficient. Suppliers for that industry locate nearby to provide specialized services, equipment, and parts to the manufacturers. Concentrated locations also make it easier to sell the goods. The purchasing agents for that industry can go to one area and see goods from many competing companies.

Service providers also concentrate in geographic locations. Many banks and stock brokerage firms have headquarters in New York City. New York was the financial business center for early America. It has remained as the financial business center because many of the supporting industries are located nearby.

**Reality Check**

Have you observed certain types of businesses locating in a specific area in your neighborhood, town, or city? Give one example and suggest why the businesses located there.

Channels of Distribution

A major part of the place decision is selecting the channel of distribution. A **channel of distribution** is the route a good takes from its original source to its final customer. Think of an apple you ate recently, 26-6. What route did the apple take to get to you? The apple started out in an apple orchard owned by an apple farmer. The apple farmer sold the apples to an apple buyer. The apple buyer buys apples from all



26-6

Think of an apple or other fruit or vegetable that you ate recently. How did it get to you from the place where it was growing?

the farmers in the area. The apple buyer then sells apples to your local grocery store. You then go to the grocery store and buy the apple.

You could have bought the apple directly from the apple farmer. However, you live very far away from any apple farms. The apple buyer and the grocery store make the apple convenient to you. The apple orchard, apple buyer, and the grocery store are the channel of distribution for the apple.

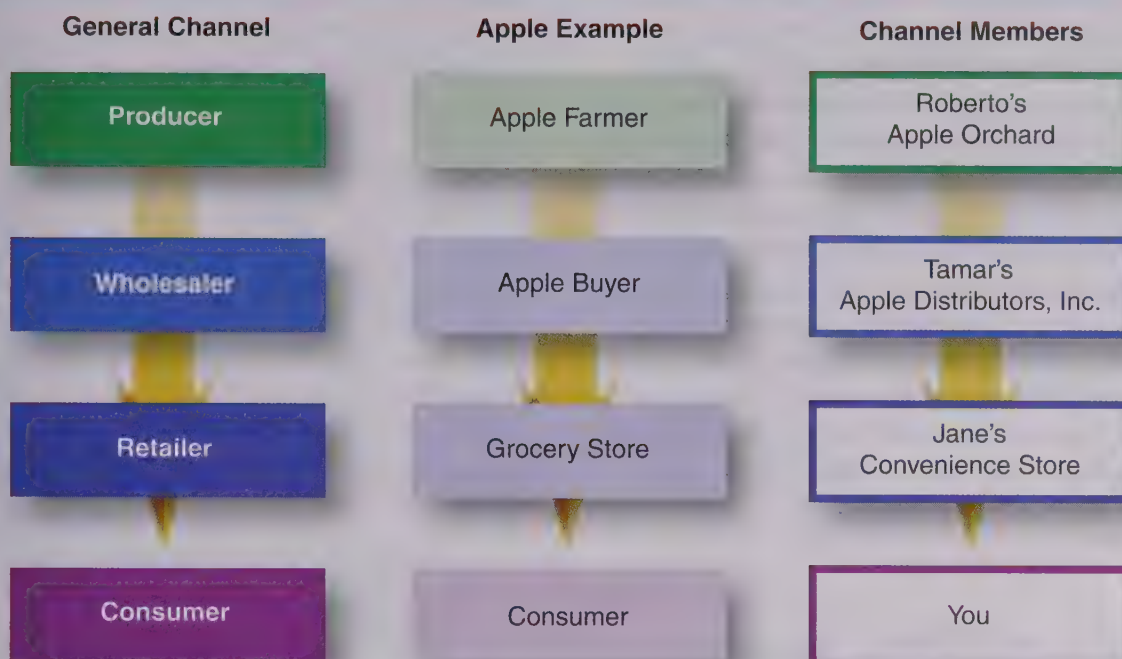
Wholesalers and Retailers

The businesses between the original source (the apple farmer) and the customer (you) are called **intermediaries**. The apple buyer and the grocery store are intermediaries. (Intermediaries used to be called *middlemen*; they are the people or businesses in the middle between the source of the product and the customer.) Intermediaries are also called *resellers* because they resell products that they have purchased to another intermediary or to the final consumer.

The two most common types of intermediaries are wholesalers and retailers. A **wholesaler** is a business that buys products from a producer, and then sells them to another business. Wholesalers are B2B businesses. Wholesalers are also called *distributors*. As you learned in Chapter 25, a *retailer* is a business that buys products from a producer or a wholesaler, and then sells the product to the final customer in the consumer market. Retailers are B2C businesses. Retailers include department stores, supermarkets, convenience stores, restaurants, movie theaters, car dealers, and many other types of stores. Figure 26-7 shows the most common channel of distribution for consumer goods.

A **channel member** is a specific business that is part of the channel of distribution for a specific product. In the apple example, Roberto's Apple Orchard, Tamar's Apple

Channel of Distribution Example



26-7

The most common channel of distribution for consumer goods includes a producer, a wholesaler, and a retailer.

Distributor, Inc., and Jane's Convenience Store are the channel members for the apples. Roberto could have chosen different channel members to move the apples through the channel of distribution. For example, Jordan of Jordan's Wholesale Apples might offer Roberto a better deal than Tamar does. Jordan might pick up the apples more often and might sell them to more grocery stores than Tamar does.

Retailers also include nonstore retailers. A **nonstore retailer** is a business that sells directly to consumers through ways other than a retail store. Nonstore retailers include mail order catalogers, TV shopping channels, and Web sites. They also include retailers who sell directly to customers by sales representatives. Nonstore retailers

may have sales representatives who either visit customers in their homes or call them by telephone. Avon, Tupperware, and Amway have long used their own sales representatives to call on customers.



Reality Check

Think of a good you have purchased. Name at least one of the channel members in the channel of distribution for that good.

Supply Chain

A channel of distribution is like a chain that links a raw material to the final

customer. For this reason, a channel of distribution is often called a **supply chain**. You can visualize each step in the channel of distribution as being one of the links in the supply chain. The supply chain is visualized vertically, with the raw material at the top and the final customer at the bottom. Products start at the top and move from link to link to reach the final customer, 26-8.

Each step in a supply chain can be referred to as a *segment*. In the simple supply chain shown in Figure 26-8, the producer, wholesaler, retailer, and final consumer are segments of the supply chain. In a supply chain, each segment is the customer of the preceding segment. In Figure 26-8, the

wholesaler is the producer's customer. The retailer is the wholesaler's customer. The final customer in the consumer market is the retailer's customer.

Similarly, each segment is the supplier of the following segment. In Figure 26-8, the producer supplies products to the wholesaler. The wholesaler supplies products to the retailer. The retailer supplies products to consumers.

Supply chains (in other words, distribution channels) can be long or short. Services usually have very short supply chains, direct from the service provider to the customer. Manufactured goods often have very long and complex supply chains. These

Supply Chain Example



26-8

A channel of distribution is often referred to as a supply chain. The four segments of this supply chain are the producer, wholesaler, retailer, and consumer. Each segment is the supplier of the following segment. Each segment is the customer of the preceding segment.

supply chains are long and complex because hundreds of raw and manufactured parts are often needed for making manufactured products. Figure 26-9 shows the most common channel of distribution from raw material to final consumer.

Agents and Brokers

Another type of intermediary is the agent or broker. An **agent** is an intermediary who brings buyers and sellers together. **Broker** is another term for agent. The purpose of an agent is to connect sellers and buyers. An

agent never buys or handles the product. An agent may be hired by the seller or the buyer, but the goal of the agent is to arrange an exchange satisfactory to both parties.

The simplest situation in which agents are used is in the selling of residential real estate. There may be hundreds of homeowners who want to sell their houses. There may also be hundreds of buyers. How will the sellers find the buyers? How will the buyers find the house they want? The real estate agent specializes in knowing the houses that are for sale and in finding people who want to buy a house, 26-10. The real estate agent knows the houses and gets to know what the buyers want. The real estate agent will then show a buyer several houses. The agent brings the house seller and the

A Common Channel of Distribution



26-9

This figure shows the most common channel of distribution for consumer goods, from raw materials to final consumer. A channel of distribution is also called a supply chain. Some products have longer or shorter supply chains than this one.



26-10

A real estate agent is an intermediary who brings house sellers and house buyers together.

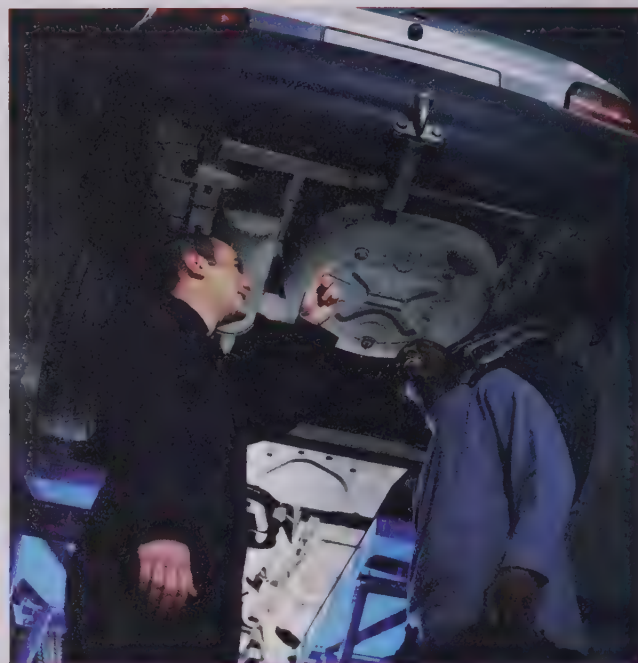
house buyer together. The real estate agent never owns the house. The seller usually pays the real estate agent a fee for selling the house.

Agents and brokers may be used at any step of a distribution channel. At the raw materials step, a precious metals broker might connect mining companies with jewelry manufacturers who need the mined metals. In the middle of the channel, agents and brokers might connect manufacturers with wholesalers. Agents are especially useful for offshore manufacturers who want to connect with wholesalers in the United States. Brokers are also used when a U.S. manufacturer wants to sell to a foreign country. The U.S. manufacturer may not know the wholesalers, retailers, or even the language of the foreign country. The broker knows the foreign country's distribution system. The broker will connect the manufacturer with a wholesaler.

Role of Intermediaries

Why do producers use intermediaries? The apple farmer could sell his apples directly to consumers, with no intermediaries. A channel of distribution with no intermediaries is called **direct distribution**. Many services have direct distribution. As you learned in Chapter 21, the production of a service is not separable from the use of the service. A manicure is not produced until the manicurist actually files and polishes the nails of a customer. A haircut does not exist until the hairdresser cuts your hair. These are examples of direct distribution. The service product is purchased directly from the service producer, 26-11.

Most goods have distribution channels with one or more intermediaries. A channel of distribution that uses one or more intermediaries is called **indirect distribution**. Goods are sold to companies in the next segment of the channel. The step above the transaction is the seller. The step below the



26-11

Most services have direct distribution. You buy the service, such as auto repair, directly from the person who performs the auto repair.

transaction is the buyer. Figures 26-7, 26-8, and 26-9 are examples of indirect distribution.

Choosing the best channel of distribution for a product is critical to the success of the product. A producer might have the best product in the world, but poor distribution decisions can cause the product to fail. Intermediaries provide important services to producers. Intermediaries specialize in distribution. As you learned in Chapter 1, *distribution* is the process of delivering products to customers. Distribution includes shipping, storing, inventory, and stocking. Distribution is a major part of the place P of the marketing mix.

Intermediaries are experts at making sure goods are in the right place, at the right time. The producers are experts at producing large quantities of their products. The apple farmer is expert at producing bushels of apples.

The basketball factory is expert at producing truckloads of basketballs. The producers often do not have the expertise to do a good job at distribution. Since intermediaries specialize, they can often perform the movement of goods more economically than the producer can.

Three major functions of intermediaries include (1) facilitating exchanges, (2) break-bulk service, and (3) some of the Four P marketing activities. Intermediaries also handle physical distribution, which will be covered in Chapter 27, and retail inventory, which will be covered in Chapter 28.

Facilitating Exchanges

One of the major services of intermediaries is facilitating exchanges. **Facilitate** means to make an action easier. Intermediaries make the exchange process easier. Intermediaries facilitate exchanges for both consumers and for producers. The following are simplified examples of how intermediaries facilitate exchanges. These examples may seem too simple; however, they clearly show one of the basic functions that intermediaries perform for most of the consumer goods you buy.

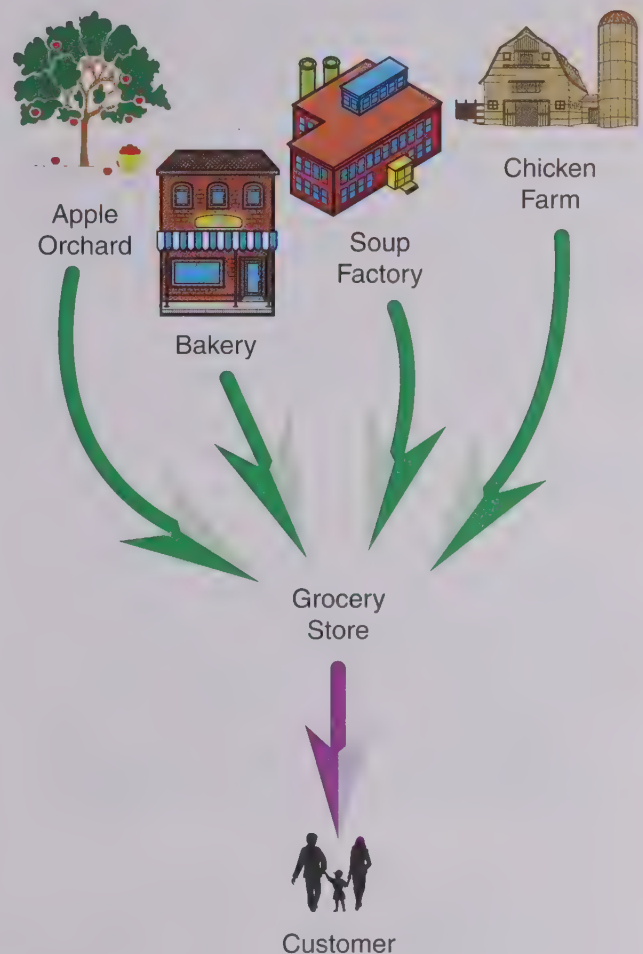
Customer: One Place, Many Goods

Suppose you need apples, bread, canned soup, and eggs. If there were no intermediaries, you would have to go to the apple orchard for the apples, the bakery for the bread, the soup factory for the soup, and the chicken farm for the eggs.

Now think of how one intermediary can facilitate your grocery shopping. That one intermediary is a retailer, the grocery store. The grocery store takes on the task of contacting the apple orchard, the bakery, the soup factory, and the chicken farm. The grocery store buys products from the four producers. The grocery store handles the four

transactions with those producers. You go to the grocery store. You have the convenience of picking up the apples, bread, soup, and eggs in one place. You also only have one transaction, that is, with the grocery store, 26-12.

One Place, Many Goods



26-12

The retailer, in this case the grocery store, handles transactions with many suppliers. Thus the retailer can provide a wide variety of goods in one location. As a result, shopping is more convenient for the customer, who only has to go to one store for a variety of goods.

Producer: One Transaction, Many Customers

Now think of the producer's situation. The apple farmer wants to sell as many apples as possible. Imagine that there are no intermediaries. In order to sell his apples, the farmer would have to go to where the customers are. The farmer will have to take a day away from the orchard to go to a farmer's market. Suppose the farmer wants to sell 20 bushels of apples. The most that one customer might buy is one bushel. Therefore, the farmer would have to handle at least 20 individual transactions with 20 separate customers.

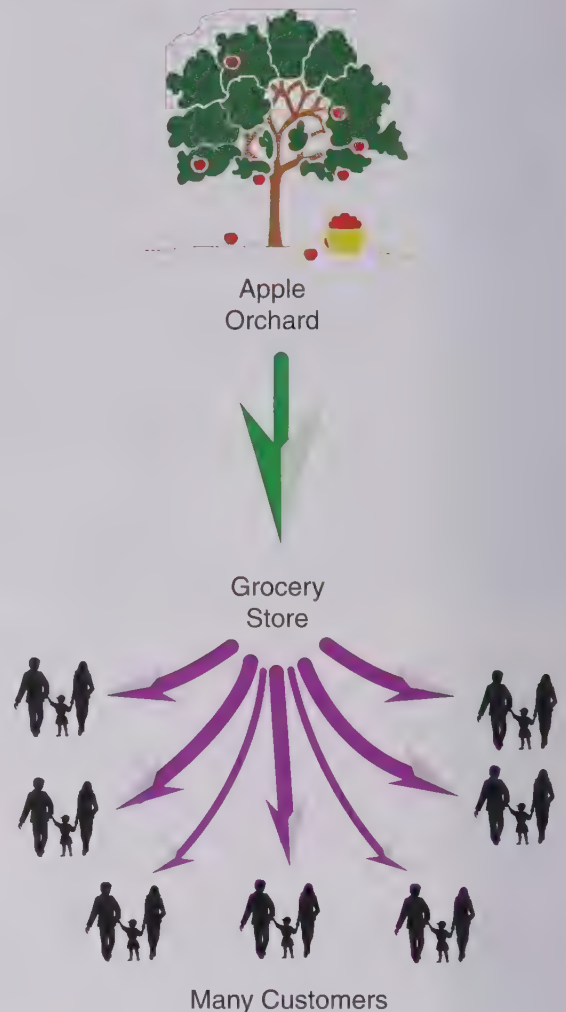
Now think of how an intermediary could facilitate exchanges for the farmer. The farmer contacts the grocery store. The grocery store buys 20 bushels of apples. The farmer has one transaction for all 20 bushels. The grocery store handles the 20 or more individual transactions with the customers, 26-13.

Bulk-Breaking

Another important function of intermediaries is called *bulk-breaking* or *break-bulk service*. Most goods are shipped in large quantities, such as a truckload or a railroad carload. *Bulk* is another term for *large quantity*. Most consumers do not want a truckload of jeans or a railroad carload of computers. They usually want one of an item.

Bulk-breaking is the process of separating a large quantity of goods into smaller quantities for resale. Intermediaries buy goods in bulk, and then break down the bulk into smaller quantities of goods. For example, it is easier and cheaper to ship a bushel of apples than 100 separate apples. The grocery store will buy apples by the bushel, and then display them and sell them to customers a few at a time.

One Transaction, Many Customers



26-13

The retailer, in this case the grocery store, handles transactions with many customers. Thus one supplier can reach many more customers than if each customer had to go to the supplier's location. The retailer also saves the supplier the tasks of handling each individual customer's transaction.

A manufacturer might decide to sell its goods in bulk directly to a retailer. This situation occurs with huge retailers that buy large quantities of goods from one manufacturer. For example, Wal-Mart

buys many of its goods directly from manufacturers. Wal-Mart then handles all the bulk-breaking tasks. First the goods are broken into smaller quantities and delivered to each Wal-Mart store. Then the retailer displays the goods, which the customers can buy in even smaller quantities.

Other producers sell their products in bulk to wholesalers. The wholesalers then break down the bulk and sell the products to retailers.



Reality Check

List five products that you buy singly, that is, one at a time. List five products that you buy two or three at a time. Name a product that you buy in large quantities. How many do you buy at a time? For each product, how many do you think the retailer buys at a time?

Some Four P Marketing Activities

Retailers are probably the intermediaries with which you are most familiar. Retailers do not make the goods they sell. Retailers are service businesses. They buy goods from wholesalers or producers. Retailers then offer these goods for sale to consumers. Retailers often perform some or all of the Four Ps of marketing.

- **Product.** Although retailers do not make the products they sell, they decide which goods to sell. The selection of goods to sell is very important to the success of the retail store. If the retail store buys a truckload of orange jeans, and they do not sell, the retail store will lose money.
- **Price.** You may have heard the phrase “manufacturers suggested retail price.” Manufacturers often suggest what price should be charged for their goods; however, it is the retail store that sets the price that the customer actually pays.

- **Place.** Retailers play a major role in determining the location where goods are sold. Place issues for retailers were discussed earlier in this chapter.
- **Promotion.** Next time you watch TV or open a newspaper, notice the businesses that sponsor the ads. A large number of them will be retail businesses. Retailers advertise goods from a variety of producers. They also advertise sales and special events designed to bring customers into the store. Retail stores also specialize in displaying goods in appealing ways. You will learn more about promotion in Part 7.

Ownership in the Distribution Channel

Distribution also involves activities associated with the transfer of ownership of products from the producer to the customer. The original owner is at the beginning of the distribution channel. The final owner is the customer at the end of the distribution channel, 26-14. Most, but not all, of the intermediaries take ownership of the product as it moves through the channel. When ownership is transferred, responsibility for the product is transferred. The new owner is responsible for the product. Risk for the product is also transferred when ownership is transferred. The new owner is the one who will suffer any loss if the product is damaged or lost.

In the apple example shown in Figure 26-8, the apple wholesaler buys apples from the apple farmer. At this step, the apple farmer (producer) transfers ownership of the apples to the apple buyer (wholesaler). The producer gets payment for the product. The wholesaler now owns the apples. At this point, the wholesaler owns the apples and is responsible for them and shoulders the risk of loss. If the apples are lost or rot, the wholesaler takes the loss.

**26-14**

As products move along the distribution channel, ownership of the goods is usually transferred. Ownership can be transferred from the producer to the wholesaler to the retailer to the final customer.

The apple buyer (wholesaler) is now a seller. The wholesaler sells the apples to the grocery store. At this step, the apple wholesaler transfers ownership of the apples to the grocery store (retailer). The wholesaler gets payment for the product. At this point, the retailer owns the apples and has the risk of loss. If the apples rot, the retailer takes the loss.

The retailer then sells three apples to you. You are now the owner of the apples. If the apples rot before you eat them, it is your loss.

The transfer of ownership is a process governed by law. A **title** is a legal document that verifies the owner of a good. For example, when you buy a car and complete your payments, you receive your title to the car. The title proves that you are the owner of the car. The phrase *take title to* means the same thing as *take ownership of*. For small consumer items, such as clothing and books, the receipt you receive when you pay serves as the document proving ownership.

Tillicum Village Showcasing Native Culture

Blake Island is located in the middle of Puget Sound. Before 1962, there was not much on the island besides the wildlife. The only way to get to there is by tour boat or private boat. Yet Blake Island is now the location of a thriving tourist attraction, Tillicum Village. More than 100,000 people visit annually. How did this small island become the perfect place for an attraction featuring Native American culture?

Want Some Salmon?

Bill Hewitt was a caterer and active tourism booster for Seattle, Washington. In the early 1960s, he was looking for a way to use his salmon-baking skills. At the same time, the Washington State Parks Commission was looking to develop some kind of facility on Blake Island.

Bill Hewitt thought about what kind of facility to propose for Blake Island. He wanted to feature his baked salmon. He knew that Blake Island was the ancestral home of the Suquamish Indian tribe. It was also the legendary birthplace of Chief Seattle. Baked salmon is a traditional dish of the Northwest Indians. Tillicum comes from a Chinook Indian word for "friendly people." Based on these ideas, he created Tillicum Village, a showcase for Native American culture and crafts.



Courtesy of Tillicum Village, some costume artwork by Rob Stauffer

The Tillicum Experience

As many as 350 people take a one-hour cruise from Seattle to Blake Island. On arrival, they are greeted by Native American staff. Steamed clam appetizers are served; then the guests are led to a longhouse, a traditional Native American lodge. There the guests are treated to a traditional Indian meal. The main course is salmon cooked over a fire for an hour.

Guests are then treated to a show of traditional Native American dances and a "Parade of Masks." After the show, guests can watch a carving demonstration. They can also visit the gift shop, which features Native American crafts.

CHAPTER 26 REVIEW

Remember This

- Place decisions answer questions about (1) location of the business, (2) hours of operation, (3) channels of distribution, and (4) transportation.
 - Businesses should be located in places that are convenient for obtaining inputs and sending outputs.
 - A good retail site should be (1) easy to get to, (2) visible to passing traffic, and (3) safe.
 - A channel of distribution is the route a good takes from its original source to its final customer.
 - A wholesaler sells to other businesses; a retailer sells to the final consumers.
 - Intermediaries (1) facilitate exchanges, (2) break bulk, and (3) perform many of the Four P activities of marketing.
 - Manufacturers use intermediaries because the intermediaries perform the tasks of distribution better and more cheaply than the manufacturer can.
 - In a distribution channel, ownership is transferred from the original owner to the channel members to the final customer.
3. Before making place decisions, what should marketers know?
 4. What utilities do place decisions add to a product?
 5. What is another term for *location*?
 6. What is the difference between a wholesaler and a retailer?
 7. Draw a diagram that shows the most common channel of distribution for consumer goods.
 8. What type of channel of distribution is most common for services?
 9. Why do manufacturers use intermediaries?
 10. What happens to ownership of products as they move through a distribution channel?

Review Concepts

1. What is the main goal of place decisions?
2. Fill in the blanks: Successful organizations make sure their products are in the right _____ at the right _____ in the right _____.

Think Critically

1. Why is location such an important decision for a business?
2. Suppose a retailer has a Web site. What kind of market coverage would the Web site be?
3. Imagine that you are sitting in a fast-food restaurant enjoying a hamburger. Describe the channels of distribution for all the products on your hamburger plate.
4. Imagine that you want to start an export business. Why would it be beneficial to use a broker?
5. Imagine that you are shopping for groceries. How do intermediaries make your shopping easier?

6. Imagine that you are a producer. How do intermediaries make it easier to sell your product?
7. Why are retailers called service businesses?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out the channels of distribution that the company participates in. Make a chart that shows the channel of distribution.
2. Intermediaries often perform some of the Four Ps. For example, retailers often advertise. Find an ad from a retailer that features the products from more than one manufacturer.
3. Find an ad for a company that sells real estate. How much would the real estate company have had to spend if it had to buy all the properties advertised?
2. Read the article, "Wholesale Trade" in the *Occupational Outlook Handbook*. At the top right of the first page of this article appears the following: (NAICS 42). What does this mean? How does the *Handbook* describe the role of the wholesale industry? Describe the "marketing ploy" used by many retailers to make themselves look like a lower-price source of goods. What kinds of jobs are available in the wholesale trade?
3. Visit the Web site of FedEx (www.fedex.com) or UPS (www.ups.com). Find the careers link. What kinds of careers are available at the company? Do they have part-time positions for students? Browse the job openings. Choose a job. What is the job title? What does a person in that job do? What are the qualifications? Does the job appeal to you? Explain why or why not.

Connect to the Internet

Explore Careers

1. Read about real estate brokers in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What do real estate brokers do? What qualifications do they need? Visit the Web site of the National Association of Realtors (www.realtor.org). How could membership in this organization help you in your career in real estate?
1. Visit the Web site of a retailer. Find the locations of this retail store. What type of market coverage does this store have? Explain why the store has this type of coverage.
2. Choose a consumer product that you use. Use the Internet to develop the supply chain for that product. Find out the specific channel members for that product.

Marketing Terms

physical distribution
logistics
transportation
shipping
carrier
warehouse
terms of sale
purchase order (PO)
contract
order processing
distribution plan
ton-mile
economies of scale
consolidated shipping
outsourcing

After studying this chapter, you will be able to:

- list five activities of physical distribution.
- describe four elements of physical distribution.
- describe the relative speed and cost of the five main modes of transportation for goods.
- explain the difference between distribution of goods and the distribution of services and ideas.
- explain the purpose of a distribution plan.

How do goods get from one step of a channel of distribution to the next? Goods must be physically carried to the next step in the chain. Modes of transportation carry goods through the chain. For example, a factory that manufactures jeans needs a large quantity of denim fabric. A combination of ship, train, and truck bring the denim from the denim factory in India to the jeans factory in the United States. How do the finished jeans get to retail stores? Trucks carry the finished jeans to the retail stores, 27-1.

**27-1**

Trucks are a critical part of the distribution system.

Activities of Physical Distribution

The physical movement of goods in the distribution channel is called **physical distribution**. Physical distribution is needed to move raw materials to factories, finished goods from factories to warehouses, and finished goods from warehouses to retail stores. You see physical distribution every day. For example, the Pepsi trucks parked outside stores are part of the physical distribution of Pepsi products from the warehouse to the retailer.

Physical distribution is also called *logistics*. **Logistics** is a general term for the handling of details of any complex activity. Logistics for physical distribution consists of handling the details involved in physically moving goods.

The activities of physical distribution include (1) order processing, (2) transporting goods, (3) storing goods in warehouses, (4) stock handling, and (5) inventory control. People who work in distribution logistics must be organized, detail-oriented, and

flexible. The success of a business often depends on the logistics workers getting products to the right place, at the right time, and in the right quantity. This chapter discusses (1) order processing, (2) transporting goods, and (3) storing goods in warehouses. The next chapter discusses (4) stock handling and (5) inventory control.



Reality Check

Describe a situation where you have seen physical distribution taking place.

Components of Physical Distribution

Physical distribution has four components, that is, four elements that are involved in the distribution process. These components or elements are (1) the products to be shipped, (2) channel members, (3) transportation companies, and (4) warehouses.

Products

Products are the reason for physical distribution, 27-2. Products are the items to be shipped. Products to be shipped include raw materials, such as metals, corn, and gasoline. Products also include manufactured goods needed by businesses to make other manufactured goods. For example, an automobile manufacturer may buy car stereo components from a stereo manufacturer. The stereo components need to be shipped from the stereo manufacturer to the auto manufacturer. Last, but not least, finished consumer goods need to be shipped from warehouses to retailers.

Several terms are commonly used to refer to products that are shipped. *Freight*, *cargo*, *items*, and *goods* are general terms used for all types of products. *Merchandise* usually refers to finished consumer goods to be shipped to a retailer. A group of products is often shipped to fill an order. These products are often referred to as an *order* or a *shipment*.



27-2

Physical distribution is necessary to get products where they are needed. Raw materials and intermediate products need to get to manufacturers. Finished products need to get to retailers and consumers.

Channel Members

As you learned in Chapter 26, channel members are the businesses in the channel of distribution (supply chain). The channel members are the businesses that need to distribute their products. Channel members usually own the products that need to be shipped. Channel members are also called *suppliers* because they supply products to the next step in the supply chain. Channel members are also called *vendors* because they vend (sell) products to the next step in the supply chain.

Suppliers include a wide variety of businesses: mines, farms, product manufacturers, and wholesalers. In the apple example from Chapter 26 Figures 26-7 and 26-8, the suppliers are Roberto's Apple Orchard and Tamar's Apple Distributors, Inc. Roberto's Apple Orchard supplies apples to Tamar's Apple Distributors, Inc. Tamar's Apple Distributors, Inc. supplies apples to Jane's Convenience Store.

Suppliers are responsible for making sure that their products are shipped in the most efficient, economical way. Some suppliers have their own transportation vehicles for moving their goods. Some suppliers hire transportation companies to move their goods for them.

Transportation Companies

Transportation is the process of physically moving products from buyer to seller. Vehicles are usually involved in transportation, such as trucks, trains, planes, and ships. The process of transporting products is often referred to as **shipping**, even when ships are not involved. Trucks, trains, planes, and pipelines are used for shipping, as well as ships.

Transportation companies are the companies that own the trucks, trains, planes, pipelines, or ships. Transportation companies provide the service of

transportation. Channel members often hire transportation companies to move their products. However, the transportation companies are not part of the distribution channel, 27-3. Transportation companies do not own the products. Although they perform valuable services, transportation companies are not channel members.

Another term for transportation company is **carrier**. Examples of carriers are FedEx, UPS, and the U.S. Postal Service. Other carriers are trucking companies, shipping companies, airplane cargo companies, and railroad shipping companies.

Warehouses

At many steps along the channel of distribution, products must be stored. A **warehouse** is a building for storing large quantities of products. Products in a warehouse are in inventory. Products in inventory are often referred to as inventory. Products in a warehouse are waiting to be moved to the right place when needed. Products are usually transported from

**27-3**

Transportation is essential to the channels of distribution. However, transportation companies are not channel members, and they do not take ownership of products. They provide the service of transportation.

a warehouse to companies in the next segment of the supply chain. For example, the ingredients for Pepsi are stored in a warehouse until needed at the production plant. After production, cans and bottles of Pepsi are stored in another warehouse until retailers need them to sell to consumers.

Modes of Transportation

A *mode of transportation* is a type of transportation. There are five major modes of transportation for goods: (1) truck, (2) ship, (3) train, (4) plane, and (5) pipeline. Each mode has advantages and disadvantages. Companies must decide which modes of transportation best meet their needs. Choice of a mode of transportation may depend on its speed, cost, and the flexibility in reaching a specific location. Often a combination of transportation modes is used.



Reality Check

What modes of transportation do you use to move yourself? (Modes of transportation for people include feet and bicycles.) Do you choose different modes in different situations? Explain.

Truck

Trucks are motor vehicles that move products on highways and roads. The main advantage of trucks is that they can deliver door-to-door. Trucks are also flexible. They can be scheduled to deliver products at a specific place during a specific time period. This advantage is useful for restaurants, which must receive food products at specific times. The main disadvantages of shipping by truck are delays caused by traffic, bad weather, or maintenance problems.

An additional advantage of trucks is that they can be modified to carry a specific type of cargo. For example, refrigerated trucks are designed to carry products that must be kept cold. Trucks that transport soft drinks are structured to hold the cases of soft drinks so they will not get broken in transit. Trucks that transport cars are designed to fit as many cars as possible in one truck. Many other types of trucks are designed for the specific product that they carry.

Ship

Ships carry goods on water, such as oceans, rivers, and inland waterways. The main advantage of ships is that large quantities of goods can be moved great distances at a low per item cost. Most imports to the United States are transported by ship. Ships dock at huge ports, which have the space and equipment for them to unload, 27-4.

The low cost of ship transportation must be weighed against the disadvantages. Ship

delivery is slow. Products arrive at a port, rather than at specific delivery addresses. The products delivered to a port must then be transported by another mode of transportation. Security has also become an issue. New security programs check cargo entering the United States to eliminate import fraud and terrorism.

Ships are also called *freighters*. Ships can also be modified for the type of cargo they carry. Tankers are ships designed specifically for transporting petroleum oil. Barges are large holding vessels that are towed or pushed. Container ships are ships designed to hold large metal shipping containers. These shipping containers are huge: 8 feet by 8 feet by 40 feet. It is easier to load and unload one large metal container than many small boxes. Containers allow large quantities of goods to travel long distances without being unpacked. Containers can be transferred from a ship to a truck or flatbed railcar to continue to their destinations, 27-5.



27-4

Ships can carry huge amounts of goods over long distances. The goods are usually packaged in large containers, which you can see on the left half of this ship.

**27-5**

Containers are widely used to convey goods from one mode of transportation to another. This photo shows a container that has been unloaded from a ship. It is now being placed on a truck for delivery to another destination.

Train

Trains move products over railroad tracks. Large quantities of goods can be shipped by train over long distances at relatively low cost. However, there is no destination flexibility. Trains can only go where there are railroad tracks.

Trains are important for moving heavy and bulky goods, such as steel and lumber. Railroad cars can be modified for specific types of cargo. Boxcars carry cattle. Gondola cars carry gravel and coal. Tank cars haul liquids. Covered hopper cars carry grain. Multilevel auto racks carry new cars.

Flatbed railcars can carry the same type of shipping containers that container ships carry. Flatbed railcars can also carry truck trailers. From the train, each container or trailer can be taken off and trucked to its destination, 27-6. The contents of the container or truck trailer are not unloaded or reloaded. Thus, there is less chance for goods to be damaged during the train-to-truck transfer. Using the train-truck

**27-6**

This freight train has flatbed railcars and is carrying truck trailers.

combination also combines the lower cost of train transportation with the door-to-door advantage of truck transportation.

Plane

Airplanes carry cargo through the air from airport to airport. The greatest advantage of air shipments is speed. However, it is the most expensive mode of transporting goods. Also, delays sometimes result from bad weather. In addition, another mode of transportation must be used to get the goods from the airport to their final destination.

High-value, low-weight items are often shipped by air. Examples are overnight packages and emergency medicines. These valuable products must arrive quickly. Air shipments are also used for perishable goods. Perishable goods spoil quickly, such as fresh flowers or vegetables. Shipping by plane is used when delivery time must be short and the higher transportation cost can be justified. The speed of air transportation can sometimes save on inventory costs. Holding expensive or perishable goods in a warehouse is costly. Products can spoil, plus warehouse space costs money. For these reasons, the cost of shipping by plane can be offset by the savings on inventory costs.

Pipeline

Pipelines carry large amounts of liquid or gas products to their destinations through tubes. For instance, oil and gas are piped from Alaska to California. Oil is also piped from oil wells in deserts of the Middle East to tankers at Persian Gulf seaports. Sometimes wood pulp and finely ground ores are mixed with water and sent through pipelines.

Pipelines can carry only a few types of products. Products carried through pipelines move slowly but continuously. Products in the pipelines are safe from damage or theft. Also, they are not subject to delivery delays due to bad weather. Building a pipeline is expensive, but the cost to operate the pipeline is small. Leaks do not often occur. However, when there is a leak, there can be great environmental damage.



Reality Check

Name a good that you use often. Describe how you think it was physically transported through the various steps of its channel of distribution.

Distribution of Services and Ideas

Services and ideas also need to be transported to customers. The goods involved in services and ideas are transported by the modes of transportation just discussed. For example, the furniture in a doctor's office is transported there by one or more of the five modes of transportation. Sometimes you must be transported to the place where a service or idea is offered.

The services themselves are most often "transported" by individuals, through their performance of the service. People *do* the services. You may have to take a taxi to the doctor's office. However, the

medical examination (the service itself) is "transported" to you when the doctor actually performs the examination. A band will take a plane and a limo to get to a concert hall. The service, that is, entertainment, will be delivered when the band starts singing and playing.

Ideas are carried by media to their target market, 27-7. The target market for ideas is often called an *audience*. Media that carry ideas include radio stations, television channels, Internet Web sites, newspapers, magazines, outdoor billboards, and other types of communication.



Reality Check

Imagine that you are on the committee to publicize a school event, such as the prom or a play. Describe how you would transport the information about the event to your audience.



27-7

Ideas are distributed through the media, such as books, radio, TV, newspapers, and the Internet.

The Distribution Process

The distribution process starts when a buyer contacts a supplier. The buyer might be a silver manufacturer that needs more silver; the supplier might be a silver mine. The buyer might be a computer manufacturer that needs more memory chips; and the supplier might be a memory chip manufacturer. The buyer might be a retailer that needs more jeans; and the supplier might be a jeans manufacturer or a wholesaler of clothing.

The buyer and the supplier will negotiate the terms of sale. **Terms of sale** are the conditions governing a sale. These terms might include discounts, transportation arrangements, date of delivery, who pays for the transportation costs, when payment is due, and other specific conditions of the sale. Then a purchase order is written.

Purchase Order

A **purchase order (PO)** is a document authorizing the purchase and delivery of certain goods at specific prices and times. The document has a PO number that identifies the order. The PO becomes a sales contract between the buyer and seller. A **contract** is a legal written agreement. The sales contract details all the terms of the sale. People representing both the selling and buying companies sign the contract. Both sides get a copy of it. Most purchase order contracts are quite similar. They have standardized clauses that describe delivery, payment, and other details.

When a company needs particular items, that company writes up a purchase order. The purchase order starts the movement of goods from the supplier to the buyer. The buying company sends a signed PO to the supplier.

The supplier receives the PO. The supplier signs the PO, which validates it as

a contract. A confirmation is sent from the supplier back to the ordering company. It says the order has been received and will be filled and sent.

Order Processing

Order processing is receiving and filling orders. Once the PO is received, pick tickets are created. A *pick ticket* is a list of the items requested for one order. The pick ticket usually includes a description of the item, its location in the warehouse, and the bar code for each item. The pick tickets for orders are sent to the warehouse.

The orders are picked by the warehouse staff. The bar codes on each picked item are scanned into the company computer. This process helps keep the inventory up to date. All of the picked items are collected together, 27-8.

The picked items are then moved to the packing area. Warehouse staff uses forklifts or a conveyor belt system to move the items. The warehouse staff then packs the items for each order into a large carton or other large container. The finished orders are sealed, and the boxes are labeled with the shipping address.

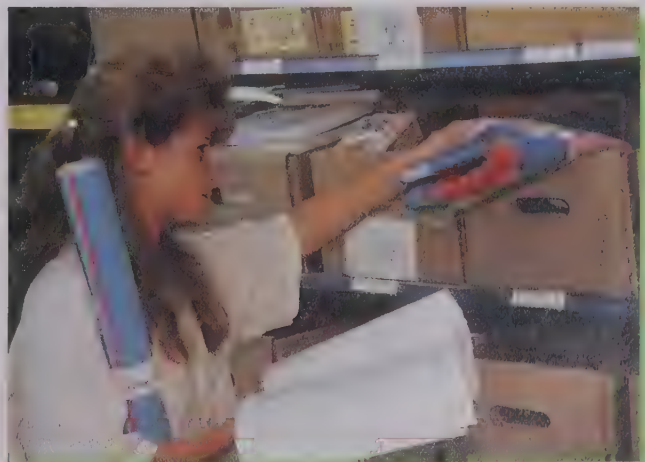


Photo courtesy of Lillian Vernon

27-8

This warehouse worker is using a computer printout to pick the items for an order.

Shipping cartons and other containers must be identifiable as they move from suppliers to buyers. Shipping labels usually include bar-coded shipping information. The bar codes can be read by optical scanners throughout the channel of distribution, 27-9.

This ordering, picking, packing, and shipping system is efficient. The bar code and scanner technology helps both suppliers and buyers keep track of orders and inventory. The use of bar-coded carton labels eliminates the need for companies to check the contents of every shipment when it is delivered. Instead, receiving employees can simply scan the bar codes to verify the contents of cartons. Inventories at that location are automatically updated accordingly. The needed goods can immediately be unpacked and used.

Computerized Order Processing

Computer linkages enable automated order processing. A company that regularly orders goods from a specific supplier will set up computer linkages with that supplier. The computer at the buying company keeps track of the number of goods in inventory.



Photo courtesy of Lillian Vernon

Each carton must be identified with a shipping label. Most labels have bar codes that can be read by optical scanners.

When the number at the buying company goes below a certain number, the computer sends a message to the supplying company's computer. The supplying company's computer then orders a set number of the goods. The supplying company's computer then notifies the warehouse to pick, pack, and send the order of goods. For example, if a grocery store has a reordering linkage with a Pepsi distributor, the distributor would automatically send soft drinks when the store's inventory is getting low. The order processing is accomplished through computer connections!



Reality Check

Think of a product you have recently bought, for which a bar code was scanned at checkout. Describe how you think the "trip" through its channel of distribution was helped with pick tickets, shipping container markings, and other procedures.

Distribution Plans

Physical distribution is the third largest expense for most businesses involved with goods. Only the costs of materials and labor are larger. Customer satisfaction and business success depend on products that arrive at the right place, at the right time, and in the right quantity. The cost of distribution must be reasonable. If distribution costs are too high, the product may have to be priced higher than customers are willing to pay.

A **distribution plan** is a plan for moving goods in the best way. A distribution plan is like a blueprint. It specifies how the goods of the company will be distributed. The plan considers costs, timing, delivery details, and other factors associated with distribution. It specifies types of transportation for goods. It names the companies that will be used to transport the goods.

Distribution planners and logistics managers are the experts who develop distribution plans. These experts know which shipping companies are the most reliable. They are also able to specify the best delivery terms. These warehousing and transportation specialists know the best ways to maximize the flow of goods. They are good at negotiating with transportation companies. The specialists figure out efficient procedures and modes of transportation.

The main measurement to calculate shipping costs is a ton-mile. A **ton-mile** is the movement of one ton of freight one mile. Thus, it is a combination of the weight of goods with the distance the goods travel. Costs are much higher for a ton-mile of any good to be transported by airplane than by other mode of transportation. The cost of transporting a ton-mile of a company's goods must be evaluated in relation to the speed of getting the goods to the destination.

Distribution plans are followed as closely as possible, but must be flexible to allow for change. For instance, what if there is a dockworkers strike in California, and entering ships cannot be unloaded? A company that depends on imports from Asia may have to bring in goods by airfreight. Company profits will be lower during this temporary inconvenience because air shipping costs will be higher. However, the company's customers will be kept happy. This will encourage future business with these customers.

International Distribution

International distribution is increasing for many reasons. The number of economies doing business with each other is growing. There are fewer global trade barriers, such as tariffs and quotas. In addition, the Internet has made worldwide business easier to transact.

International distribution is increasing because parts for many products are made in

different countries. For instance, computer manufacturers often use parts made in several countries. The parts are shipped to a different country where the final product is put together. Then the computers are shipped to different destinations.

Distribution planning is more complicated when it involves international trade. U.S. and foreign import and export laws must be followed. Companies often have to deal with unusual regulations that are different in each country. Also, negotiations may be delicate when different cultural values and practices are involved. In addition, language barriers must be overcome to minimize misunderstandings. Last but not least, the distances are usually much larger.

Foreign markets have different distribution systems, 27-10. With more miles to travel, more and different modes of transportation are used. Some countries even have legal restrictions about how products are to be transported.

To deliver goods successfully, companies must understand other countries' physical transportation systems. Once products



27-10

International distribution must take into account the physical transportation systems and laws of other countries. This photo shows a river market in Thailand.

get to foreign destinations, those nation's transportation systems take over. Roads may be dirt paths. The only form of transportation may be packages carried by hand on bicycles! In many parts of the world, there is no refrigeration.



Reality Check

Imagine that you have developed a new good. Choose an overseas country where you would like to sell it. Describe a distribution plan for your good. What problems might you run into?

Streamlining Distribution

Since distribution is the third largest expense for many businesses, managers are always looking for ways to make distribution more cost-effective. *Cost-effective* means that the benefits outweigh the expense. The following describe several ways to streamline distribution.

Combine Modes of Transportation Economically

To combine different modes of transportation, a company might ship some goods by rail, some by air, and

some by highway. Decisions about the best combinations of transportation are based on the locations of the beginning and end of the channel. Costs must be considered, as well as the required speed of delivery, 27-11. The final price of goods is important, and the goods must arrive on time.

Fill Transportation Vehicles

Transportation can be streamlined by filling train cars, air transports, trucks, and other modes as full as possible. By doing this, costs are lowered by using economies of scale. **Economies of scale** are cost reductions per item resulting from producing or transporting large numbers of items at one time. Since fixed costs are spread across all the goods in an order, the cost of each good goes down as more are included. When goods are made, mass production of huge numbers of the same item causes each item to cost less. In shipping, sending many items in a load, rather than just a few items, lowers the cost of shipping each individual item.

Combine Shipments

To take advantage of economies of scale, companies use consolidated shipping whenever possible. **Consolidated shipping** is putting two or more companies' orders in a

Comparison of Modes of Transportation

Mode	Speed	Cost	Door-to-Door?
Truck	Moderate	Moderate	Yes
Ship	Slow	Low	No
Train	Slow	Low	No
Plane	Fast	High	No
Pipeline	Moderate	Initial cost high; maintenance cost low	No

Distribution planners must consider the advantages and disadvantages of each mode of transportation.

truckload, train car, or shipping container. Each order is too small to fill an entire container, truck, or other shipping unit. By consolidating the orders, transportation costs are lowered for each company. When the consolidated shipments arrive near their geographic destinations, each company's goods are separated and transferred to smaller trucks for final delivery to specific locations.

Keep Track of Shipments

Satellite shipment tracking is being used to keep track of freight at all times. Trucks contain computers that can send messages to instantaneously route them where the goods are needed. Dispatchers at the shipping office know where the trucks are at all times. Receiving companies know exactly when shipments will arrive. Then employees can stay busy with other tasks until a truck is pulling into the unloading dock.

Hire Outside Experts

Some businesses hire specialized logistics companies to handle their distribution. The term **outsourcing** is used for the hiring of an outside company to do specific work. A logistics company that specializes in

distribution often has more expertise than the employees inside the company. It can be cost-effective to outsource logistics. The outside experts must be paid a certain amount for their services, but they save the company more than that amount. Deliveries are faster and more accurate, which keeps customers happy. Fixed overhead expenses are reduced because smaller warehouses and fewer company trucks are needed. Outsourcing can also eliminate the need for companies to do seasonal employee hiring, such as for extra holiday shipping. Instead, the hired logistics experts must provide the additional workers and transportation vehicles.

Make Warehouses More Efficient

In the future, warehouses may become smaller and use better methods. They will be so efficient that fewer goods will be held in them for shorter times. The goods will have minimal handling. The facilities will be totally automated with bar codes and advanced scanners. Most received goods will be electronically identified, sorted, routed, and shipped in an uninterrupted flow. They will not sit in a warehouse. This system will be faster, more accurate, and have lower labor costs.

CHAPTER 27 REVIEW

Remember This

- The five activities of physical distribution are (1) order processing, (2) transporting goods, (3) storing goods, (4) stock handling, and (5) inventory management.
 - The four components or elements of physical distribution are (1) products, (2) channel members, (3) transportation companies, and (4) warehouses.
 - The five modes of transportation for goods are (1) truck, (2) ship, (3) train, (4) plane, and (5) pipeline.
 - The distribution of goods usually involves one or more of the five activities of physical distribution. Services are usually distributed directly by the people who perform the service. Ideas are usually distributed by the media.
 - The purpose of a distribution plan is to specify the best way to distribute a company's goods.
5. How are services and ideas distributed?
 6. When does the distribution process start?
 7. What has to happen before order processing starts?
 8. Describe the order processing process.
 9. How are computers used in order processing?
 10. Why is a distribution plan like a blueprint?
 11. What measurement is used to calculate shipping costs?
 12. Why is international distribution more complicated than domestic distribution?

Review Concepts

1. Give two terms that describe the physical movement of goods through the channel of distribution.
2. What is the role of each of the four components of physical distribution?
3. Does shipping refer only to the movement of goods by ship? Explain your answer.
4. Name one advantage and one disadvantage of each of the five modes of transportation.
5. How are services and ideas distributed?
6. When does the distribution process start?
7. What has to happen before order processing starts?
8. Describe the order processing process.
9. How are computers used in order processing?
10. Why is a distribution plan like a blueprint?
11. What measurement is used to calculate shipping costs?
12. Why is international distribution more complicated than domestic distribution?

Think Critically

1. Why is inventory part of distribution?
2. Describe a business that you would like to own. What items would need to be transported to or from your business? Which modes of transportation would you use for each item? Explain why you would use that mode for each item.
3. Transportation by plane is the most expensive. Why would a business use planes?
4. What is the purpose of a purchase order?
5. Why is the amount of international distribution increasing?
6. How can distribution be made more cost-effective?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Make a list of items that are delivered to or transported from the business. Which modes of transportation are used for each item? Who develops the distribution plan?
2. Visit your local post office. What services does the U.S. Postal Service provide? Observe the patrons or talk with the postmaster. Are there businesses that use the U.S. Postal Service in your area?
3. Visit the library or use the Internet to find a business-to-business directory, such as B2B Yellow Pages. Use keywords "delivery service," "freight forwarding," or "shipping services." Then make a list of the companies that provide such services in your area.

Explore Careers

1. Read the article "Material-Recording, -Scheduling, -Dispatching, and -Distributing Occupations" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. List the jobs available in this category and how they contribute to the distribution of products. For each of the jobs listed under "Nature of the Work," there is a separate article in the *Handbook*. Choose one of these areas and read the separate article. What is the job outlook in this area? Would you enjoy such a job? Explain your answer.
2. Would you like a job with a railroad? Visit the Web site of the Association of American Railroads (www.aar.org). Find out what the railroads are doing for safety and security. Find out about the Transportation Technology Center and what it does. Visit the Web site of the Federal Railroad Administration (www.fra.dot.gov). What does this government agency do? Click on the "Jobs" link. What kinds of jobs are available with this organization? Would you like to work for a railroad? Explain your answer.
3. Would you like to work in the trucking industry? Read the article "Truck Drivers and Driver/Sales Workers" in the *Occupational Outlook Handbook*. Describe the different types of trucking jobs. What are the qualifications for a trucking job? Visit the Web site of the Professional Truck Driver Institute (www.ptdi.org). What kinds of certifications does it offer? Would you like to work as a trucker? Explain your answer.
4. Who performs the high-level coordination of money, materials, equipment, and people? Operations research analysts. Read the article "Operations Research Analysts" in the *Occupational Outlook Handbook*. Describe the marketing-related areas where these analysts work. What kind of training do they need? Visit the Web site of the Institute for Operations Research and Management Science (www.informs.org). Find out what operations research analysts do. Click on the link "What's New" and then "Operations Research

CHAPTER 27 REVIEW

in the Press.” Choose an article and summarize it. Return to the home page. Click on the link “Employment” and then “Profiles.” Choose a profile. What does this person do? Why does he or she like the job? Would you like a job in operations research? Why or why not?

Connect to the Internet

1. Learn about the ports of entry in the United States. Visit the Web site of the U.S. Customs & Border Protection (www.cbp.gov). Read the home page. What are some of the issues of importance for Customs? Click on the link “Ports.” (You might have to look hard for it.) What is a port of entry? What happens at the ports of entry? Most states have at least one port of entry. Click on the link for your state. List the ports of entry for your state.
2. Imagine that you own a company that ships products overseas. Enter the keywords “shipping lines” into an Internet search engine. Find a shipping company that you would consider using. Explain why you would use this shipping company.
3. The U.S. Postal Service, FedEx, and UPS all compete for consumer and business shipping. Visit the Web site of each. Each Web site offers information about ways to send packages and a calculator to calculate the cost. Imagine that you have a 10-pound package to ship to Washington, D.C. Figure out the costs for sending it by each company. Then, write a report or create a poster or computer presentation that compares and contrasts the services offered by each company.

Marketing Terms

merchandise
inventory planning
assortment
stock turnover
receiving
stockroom
stocking
stock-keeping unit (SKU)
physical inventory
perpetual inventory
universal product code (UPC)
inventory shrinkage
shoplifting
electronic data interchange (EDI)
just-in-time (JIT)

After studying this chapter,
you will be able to

- describe the three factors in inventory planning.
- list the five steps in retail stock handling.
- explain the purpose for marking retail goods.
- describe the two methods of taking inventory.
- list three causes for inventory shrinkage.
- describe how electronic data interchange (EDI) is used in inventory control.

At the end of the channel of distribution is the retail segment. Retailers sell goods to consumers. Another term commonly used for goods to be sold directly to consumers is **merchandise**. Consumers are the final end users. For most consumers, the place where they buy most of their goods is a retail store. Retailers also include nonstore retailers, such as Internet retailers, catalogers, and home-shopping TV channels. Retailers must have merchandise on hand to sell to customers, 28-1. The process of making sure there are enough goods on hand to sell is called *inventory planning*. Once the goods are ordered, they must be received. This part of physical distribution is called *stock handling*.



Photo courtesy of IGA, Inc.

28-1

The shelves of this grocery store are well stocked. Monitoring inventory is an important part of making sure there is enough merchandise on hand to sell.

Then, once the stock is in storage, it must be monitored. The monitoring of stock in inventory is called *inventory control*.

Inventory Planning

Inventory planning is deciding which goods to buy, when to buy them, and in what quantities. The goal is to satisfy customer demand while keeping inventory costs low. Inventory planning is often part of the retail buyer's job. The buyer studies the store's selling history and retail trends. The buyer then forecasts (predicts) what customers will buy during the next six months or one year. The buyer then selects goods for resale according to the forecast. The buyer must consider how much of each item the store expects to sell, how much merchandise is needed to make those sales, and how much merchandise can be stocked efficiently in the store, 28-2. The buyer must then order the merchandise in the appropriate quantities and schedule delivery for the appropriate times.

A buyer for a small store usually selects and purchases all the goods for the store's



© 2004 Photo courtesy of Reebok International Ltd.

28-2

Part of inventory planning is deciding which goods to buy. This decision is often based on the store's selling history.

inventory. This buyer may be the owner or manager of the store. Buyers for large chain stores, such as Wal-Mart, typically buy only one type of good. For example, one buyer might buy all the electronic games for all Wal-Mart stores.

Inventory planning is based on three factors: (1) assortment of items, (2) stock turnover, and (3) financial considerations. A *buying plan* describes the types and quantities of merchandise to buy, for a set amount of money, and for a specific time period. The buying plan includes both merchandise estimates and financial estimates. In other words, the plan projects sales in terms of both units of goods and dollars. Computer software programs are now available to help with the procedures of inventory planning.

Assortment Planning

Assortment is the selection of goods that a retailer carries. Retailers should anticipate the assortments that their target customers will want. Elements of the selection include

- variety and types of goods offered
- colors, sizes, product options, and quality level
- price ranges of the goods

Assortment breadth (width) is the number of different types of goods carried. An assortment is “broad” when many varieties are offered. For example, the assortment of a clothing store is broad when it carries many styles, colors, and sizes. An assortment is “narrow” when only a few varieties are offered. The assortment of a clothing store is narrow if it carries only a few styles in limited sizes and colors.

Assortment depth is the quantity of each item available in the assortment of goods. An assortment is “deep” if it has large numbers of each item, 28-3. The assortment in a clothing store is deep if it has many items in each style, color, and size. An assortment is



28-3

An assortment is deep if the store carries a large number of the same item.

“shallow” if only one or two of each item is stocked. The assortment in a clothing store is shallow if it only has one or two in each style, color, and size.

Retailers try to have a balanced assortment. A *balanced assortment* is stock breadth and depth to meet demand. A balanced assortment usually includes some new products, some that have been gaining in popularity, and some standard items that are always in demand. A balanced assortment provides customers with good choices.

Stock Turnover

Retail merchandise sells at an expected rate, based on past sales records. The quantity and timing of buyers’ orders should be based on that rate. **Stock turnover** is the number of times the average inventory on hand is sold and completely replaced in a specific time period, such as a year. Stock turnover is also called *inventory turns*. It is how fast inventory comes in and goes out of the store. For retailers such as grocery and clothing stores, a high stock turnover rate is better than a low one. A high stock turnover rate means that goods are being sold fast. Money is not tied up in inventory, and cash is available to buy more merchandise.

Stock turnover can be calculated by dividing the average sales for the time period by the average value of inventory for that time period. For a specific time period, the formula is as follows:

$$\text{Stock Turnover} = \frac{\text{Retail Sales}}{\text{Average Value of Inventory}}$$

For example, suppose retail sales for one year was \$800,000. For that same year, the average value of inventory on hand was \$100,000. Divide \$800,000 by \$100,000 to get a stock turnover rate of eight, 28-4. For this store, the inventory was completely sold and replenished eight times in that year.

Calculating Stock Turnover

Formula

$$\text{Stock Turnover} = \frac{\text{Retail Sales}}{\text{Average Value of Inventory}}$$

Data

Retail Sales for one year = \$800,000

Average Value of inventory
for same year = \$100,000

Calculation

$$\text{Stock Turnover} = \frac{\$800,000}{\$100,000}$$

Stock Turnover = 8 for that year

28-4

Stock turnover can be used to evaluate the efficiency of a store.

Trade associations for various types of retailers, such as hardware stores, publish the typical stock turnover rates for their type of retail business. These rates are industry averages. Retailers rate their efficiency of selling stock according to the published numbers.

Financial Planning

Financial planning is an important part of inventory planning. A *dollar merchandise plan* or a *six-month merchandise plan* is a budget for the dollar amount of goods to be purchased. The plan projects the dollar amount of goods needed for each month of the time period. It also calculates the amount of money that should be received from sales during those months. Finally, it projects the profit that should be expected.

The objective of financial planning is to provide enough stock to make most sales, but with a controlled dollar investment in

inventory. Otherwise, buyers might purchase too many goods. The dollar merchandise plan is usually determined by adjusting the previous year's figures to match the sales goal of this coming year. For instance, if sales are projected to be five percent higher this year than they were last year (the new goal), then last year's sales numbers would be increased five percent when writing the dollar merchandise plan, 28-5. However, what if current economic conditions are not good, or there are lots of new stores nearby that create stiff competition? Then sales might be projected lower.

Once the dollar merchandise plan is set, the buyer will buy the assortment of goods for the store within the budget in the plan. The buyer will negotiate contracts with each vendor. Purchase orders are written and sent to the vendors, as described in Chapter 27.

Imagine that you own a hardware store. You have planned your assortment and made your dollar merchandise plan. You have placed orders with several vendors for hammers and nails, paint and paintbrushes, electric outlets and extension cords, lumber and duct tape. The vendors have arranged for the goods to be transported to your store. The goods arrive at your store. What happens next? The next two processes in physical distribution are stock handling and inventory control.

Stock Handling

When a truck arrives at your store with your order, you have to have somewhere for the truck to park and unload. The area where deliveries are unloaded is called a *receiving dock*. It is usually at the back of the store. The receiving dock usually includes an area for the truck to pull up close to the building and an area to place the goods as they are unloaded. Stock handling for retail has five steps: (1) receiving, (2) checking, (3) marking, (4) storage, and (5) stocking the store, 28-6.

Sample Six-Month Dollar Merchandise Plan (sales in dollars)

	August	September	October	November	December	January	Total
Last Year	90,000	80,000	75,000	100,000	120,000	50,000	
Plan (last year + 5%)	94,500	84,000	78,750	105,000	126,000	52,500	
Actual							

28-5

The buyer for a retail store will use the dollar merchandise plan to guide how much is spent on merchandise.

Receiving and Checking

Receiving is the actual exchange of goods between the vendor's transporting agent and the retailer. When a shipment arrives, someone must be at the receiving dock to formally receive the goods. Usually, a document such as an invoice or delivery slip is presented and signed. The goods are then unloaded to a specific area on the receiving dock.

The next step is checking. *Checking* is the process of examining delivered items to

make sure that they are the items that were ordered and that they are in good condition. Checking usually involves comparing the items received against the items ordered on the purchase order. Possible problems include the wrong items sent, missing items, and items damaged in transit. A list or report of unacceptable items is made.

Goods that are not acceptable are returned to the vendor. Before making the return, the retailer should contact the vendor about return arrangements. When the vendor receives the returned goods, the vendor credits the retailer's account for the value of the returned goods.

A record is made for each acceptable item. This record is usually made in the company's computerized inventory system or on a written log sheet. Once the item is logged in, the vendor's bill for the item is authorized for payment.

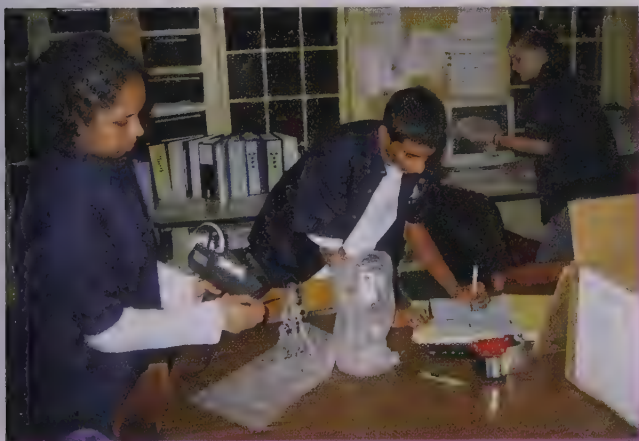


Photo by Dominic Ierardi, Greater Lowell Technical High School

28-6

All stores, large and small, must go through the stock handling process. These students are receiving, checking, and marking merchandise for their school store.



Reality Check

Have you ever observed or been involved in the receiving of goods? For example, have you received items ordered from the Internet or a catalog? Describe your experience. Did you check the items and compare them with what you ordered?

Marking

An important step in handling retail stock is marking. Imagine that you go into a clothing store. There are no tickets on any item of clothing. You have to hunt inside each garment to find what size it is. How can you tell how much it costs? Where is the information for inventory control?

Many retail stores prepare tickets or stickers to attach to items for sale. *Marking* is the process of attaching these tickets or stickers to each item to be sold. Tickets or stickers are printed with selling information, such as the store's bar codes and price. Additional information, such as size, color, model, or style number may also be printed on the tickets. The tickets provide information for the customer and information for inventory control, 28-7.



Reality Check

When you shop, do you look at the tickets on items? If yes, what information do you look for?

**28-7**

Once goods are received and checked, they are usually marked with tickets or stickers. The tickets provide information for customers and for inventory control.

Storage and Stocking

Most stores do not transfer just-delivered items directly to the selling floor. These items are usually held in a stockroom until needed. A **stockroom** is a storage area within a store's building, usually in the back of the store.

Stocking is moving merchandise from storage to the sales area, 28-8. Think of a grocery store. The store does not have enough space in the selling area for all the products it receives. In addition, customers are constantly taking goods off the shelves to buy them. The grocery store has specific people whose job is to stock the shelves. In department stores, stocking is often done by salespeople. Retail stocking includes the following tasks:

**28-8**

As merchandise is sold and new goods are received, merchandise must be moved into the sales area. Making sure the sales floor is well stocked and attractive contributes to the success of a store.

- putting out goods for sale in the selling area
- sorting and arranging goods by type, color, and size
- using appropriate shelf arrangements, hangers, or other display props
- straightening merchandise during slow times
- setting up and cleaning merchandise selling fixtures and the selling area



Reality Check

Have you observed stocking occurring at a retail store, such as a grocery or clothing store? Describe what you observed.

sure that the items get to the stockroom before the last item is purchased.

The basic unit of retail inventory is the stock-keeping unit. A **stock-keeping unit (SKU)** is the smallest unit of an item for which sales and stock records are kept. Each SKU is assigned a specific stock-keeping number. The stock-keeping number is used to identify each unit. Inventory records are often kept by SKU numbers. For example, a V-neck, white cotton shirt, size 12 might have an SKU number: SVWC12. The inventory record would record how many V-neck, white cotton shirts, size 12, are in stock: SVWC12-10 in stock. Each size, color, and style would have its own SKU number because the store needs to know how many it has in each size, color, and style. A pair of shoes would have one SKU number for the pair because one shoe would never be sold separately.

Inventory Control

Imagine that you go to a store to purchase a specific item, such as a computer. When you get to the store, the salesperson says, "Sorry, we are out of stock on that computer." You are disappointed. The store loses a sale. This situation often results from poor inventory control.

As you learned in Chapter 24, *inventory* is the term used to refer to items held in storage. Depending on the business, items in inventory can include raw materials, manufactured components, works in progress, finished goods, packaging materials, and office supplies.

You also learned that the process of keeping track of items held in storage is called *inventory control*. The success of a retail store may depend on successful inventory control. The inventory manager keeps track of how much of each item is in storage. The manager also keeps track of the sales because each sale lowers the amount of the item in storage. When the amount of an item gets low, the manager orders more and makes

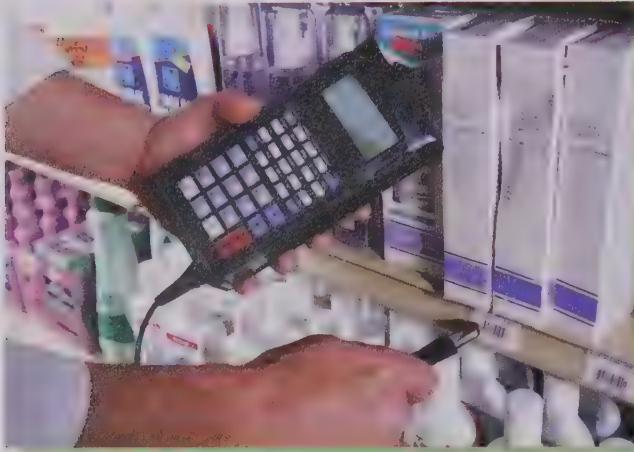


Reality Check

Have you ever owned or been responsible for a large number of items that you had to keep track of? Describe the system you used to keep track of each item. If you do not have such experience, describe how a library keeps track of the books it owns and lends.

Inventory Methods

There are two methods of taking inventory: physical and perpetual. Most inventory managers use both types. A **physical inventory** consists of actually going into the storage and sales areas and counting every item, 28-9. Physical inventory is time consuming but necessary. Most businesses perform a physical inventory at least once a year. You may occasionally see a sign in a store window, "Closed for inventory." That store is performing a physical inventory.



28-9

Scanners and computers are used to help take a physical inventory. After the product code is scanned, the worker counts the number of items and enters that number into the computer.

The second type of inventory is the perpetual inventory. A **perpetual inventory** consists of keeping a record (usually on computer) of the total number of each SKU in inventory, and then adding whenever new items are received and subtracting whenever items are sold. By looking at the perpetual inventory record, the retailer can tell how many of each item is in stock.

Most retailers keep a perpetual inventory. However, they also take physical inventory at least once a year. There is usually some difference between the number of items in the perpetual inventory and the number of items actually in the store and in storage. Sometimes there are recording errors in the perpetual inventory. Some goods might get lost or stolen. Others may get damaged. Retailers need to know how many items they actually have.

Manual Perpetual Inventory Systems

Before computers, there were several manual inventory control systems. Two commonly used systems were stub-ticket

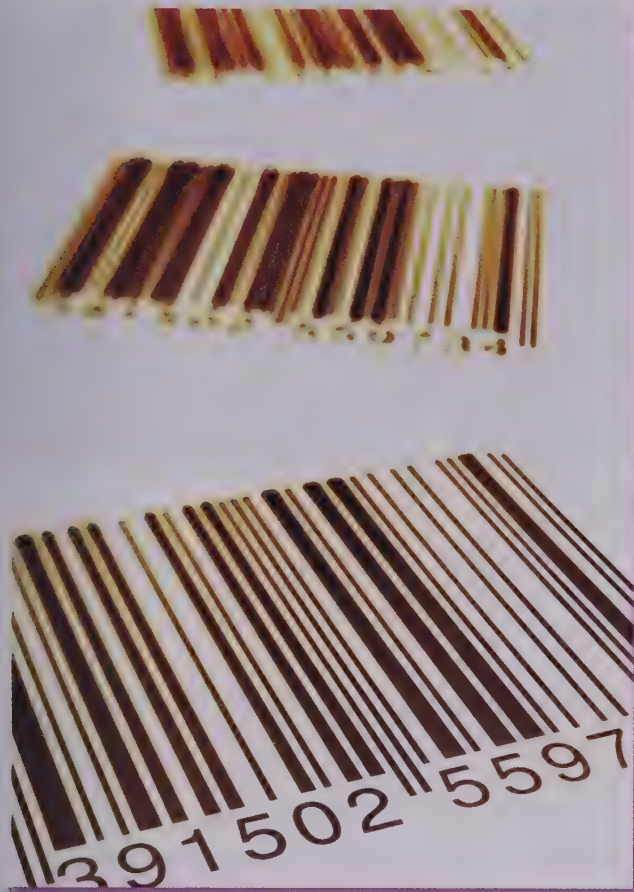
control and card-control. These systems are still used in smaller stores. In the *stub-ticket control system*, the ticket on each item has two parts. When the item is sold, the part of the ticket with inventory information is torn off and collected. At the end of the day, the tickets for each item are counted to determine how many of each item was sold. Based on these numbers, more items are ordered as needed.

In the *card-control system*, there is a card for each item. Each card would indicate the item name and the total number in inventory. As items are sold, the number is subtracted from each card. As items are received, the number is added to each card. When the number of items in inventory drops below a preset number, the item is reordered.

Computerized Perpetual Inventory Systems

Most retailers use computers to keep their perpetual inventories. Computers use the same concept as a card control system. Instead of cards, the information is kept in computer files. Computerized inventory-management systems combine electronically readable bar codes, optical scanners, and computer tabulation to keep track of items added to inventory and removed from inventory.

Almost every manufactured item is labeled with a universal product code. A **universal product code (UPC)** is a type of bar code. It consists of black bars and white spaces of varying thicknesses and a set of numbers, 28-10. The standard UPC has a 12-digit number. (Some UPCs are shorter.) The UPC is usually printed on the product's package. The first six digits are the manufacturer's identification number. The next five digits are a unique number for each product. These five digits are often the SKU number. The last number is a check digit. The check digit lets the computer electronically check to see if the number was scanned correctly.

**28-10**

A UPC is a universal product code. It is a combination of black bars and white spaces, which can be scanned, and a set of numbers.

When merchandise is received and accepted, but before it is placed in the storeroom or on the selling floor, information about the merchandise is put into the store inventory record. The UPC or the bar code on the shipping box is scanned into the computer. The computer adds the number of new items to the number in inventory. When an item is sold, the sales associate or cashier scans the UPC into the computer, 28-11. The computer subtracts that item from the number in inventory. The computer is faster and usually more accurate than the manual inventory control systems.



Photo by Dominic Ierardi, Greater Lowell Technical High School

28-11

This sales associate is scanning the UPC into the computer. The computer then subtracts that item from the inventory.

Inventory Shrinkage

When the annual physical inventory is done, the results are compared against the records from the perpetual inventory. The inventory numbers determined by the physical inventory are rarely exactly the same as the numbers in the perpetual inventory. The physical inventory usually reveals that there are actually fewer items in stock than the perpetual inventory indicates.

The difference between the perpetual inventory and the actual physical inventory is called **inventory shrinkage**. There are three main causes for inventory shrinkage: (1) data input errors, (2) theft, and (3) damage. Errors in data input can occur during receiving, stocking, or selling. Theft may be external (by people from outside the store) or internal (by people connected with the store). Damage (breakage) may occur when products are being moved from receiving dock to storage to store shelves.



Reality Check

Describe an experience you have had with “inventory shrinkage.” For example, when people do laundry, a sock often disappears.

External Theft

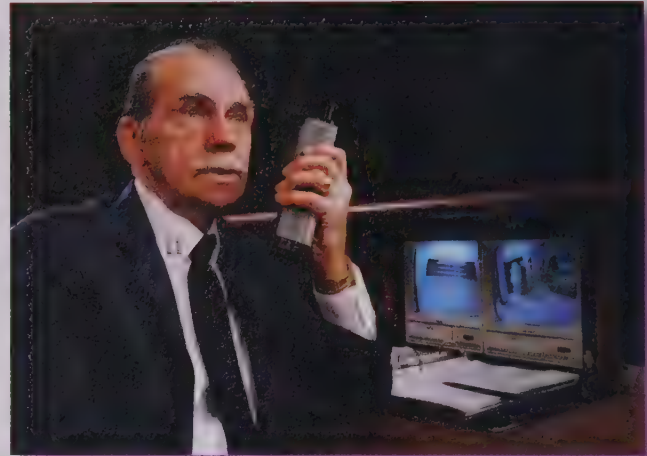
External theft is stealing by people who are not employed or otherwise associated with the retailer. This includes shoplifting and burglary. It also includes credit card fraud, check fraud, and computer fraud. Computer fraud, involving “hackers” adjusting accounts, is being reduced with blocking methods such as encryption.

Shoplifting is the stealing of merchandise from a store by a person posing as a customer. Small, high-priced goods are common targets for shoplifting. Examples are jewelry and electronic devices. They are easy to take from stores. They bring cash when sold illegally. Shoplifting has increased because there are fewer salespeople in stores, plus professional shoplifting gangs have organized. Shoplifting is a serious crime, punishable by fine or time in prison. Also, anyone with a record of shoplifting will not be employed in retail stores.

Retail stores are crime targets because they have easy public access, available cash, and are open after dark. Often the few employees on duty in the store are busy in dispersed locations. To discourage crime, closed circuit television and video security systems are installed in stores and warehouses, 28-12. Sensing devices placed on merchandise, ringing alarms, and security guards also help to prevent theft. The obvious presence of security measures cuts down on stealing.

Internal Theft

Internal theft is committed by employees of a store, a supplier, or a delivery company.



28-12

To prevent external theft, retail stores use security guards and video security systems.

Recently, more retail losses have occurred from internal theft than from external theft. To prevent this, overhead cameras and other surveillance devices monitor employee behavior, receiving docks, warehouses, backrooms, and cash registers. Hiring procedures include complete personal histories of job applicants, plus police checks. Also, employees are being trained to be more aware and active in theft prevention.

Loss Prevention

Loss prevention is the term used for programs designed to prevent loss of merchandise, money, and other company assets. Loss prevention consists of strategies developed to recognize, prevent, and monitor theft problems. Security personnel and procedures are part of the loss prevention program. The rest of store security procedures involve accident and fire prevention and emergency response plans. For more on security and loss prevention, see Chapters 31 and 45.



Reality Check

Imagine that you own a small hardware store. Your inventory is mysteriously shrinking. Describe some measures you might take to stop the inventory losses.

Technology for Inventory Control

Inventory managers and logistics specialists are constantly searching for ways to make inventory control more efficient. One of the goals is to always know how much product is in storage. Another goal is to make sure that only the amount of product needed is in storage. As you learned in Chapter 24, having too many items in storage can be very expensive. The ultimate goal is to reduce the cost of keeping inventory, yet always have enough product to satisfy customer demand.

Electronic Point-of-Sale Equipment

Electronic point-of-sale equipment uses the capabilities of the computer to provide sales and inventory information. Sales and inventory information can be printed every few minutes, daily, or weekly. These reports show what is selling fast and what is selling slowly. Retail buyers can then tell which items are increasing or decreasing in popularity. As a result, buyers can make better buying decisions.

Electronic Data Interchange

Electronic data interchange (EDI) is the business-to-business exchange of data (information) by way of computers using standard formats, 28-13. EDI messages usually consist of information that would have been sent in paper business documents. EDI messages include purchase orders,



28-13

Electronic data interchange (EDI) uses the power of computers and the Internet to help businesses exchange information and do business more efficiently.

shipping notices, invoices, credit memos, and other documents.

EDI usually takes place between businesses that have a working relationship with each other. These businesses make arrangements for EDI by connecting their computers and loading the appropriate software and codes. Businesses that communicate by EDI are often referred to as trading partners.

EDI increases accuracy and reduces costs. There is less clerical work, data entry, and

mailing of forms. Paperwork and postage costs are almost eliminated. Information is sent and received almost instantaneously, so mailing time is reduced. Also, goods can be tracked so retailers know exactly when they will arrive at the receiving dock.

EDI can also be used for an automatic reorder system. When the UPC on an item is scanned at retail checkout, the information is recorded in the computer system. Each item sold is automatically deducted from the total inventory for that item. When the number of items in inventory falls to a specific number, an EDI message is sent to the supplier. The message is an order to send a specified number of the specific item. The supplier then ships the items to the retailer. This automatic reorder system is also called *electronic replenishment*.

Electronic replenishment is an inventory system with a continuous process of inventory control. It shifts the responsibility of inventory replenishment to vendors. Vendors know what items are selling. They deliver inventory to the store just before it is needed in stock. Inventory can go right to the selling floor, without being stored. This keeps inventory low and correct. Inventory costs are kept down. Profits are increased. Deliveries are more frequent and smaller. Buying mistakes are reduced because merchandise decisions are made automatically based on actual sales of the products.

Just-in-Time Systems

In Chapter 24, you learned that manufacturers keep raw materials in inventory until they are needed for production. You also learned that too little inventory can interfere with the production process because materials needed for production are not available. Too much inventory can also cause problems. Usually too much in inventory results in higher

expenses, due to the cost of warehousing and related inventory costs.

Similar problems occur with retail store inventory. If there is too little merchandise in inventory, the store will lose sales because it does not have goods to sell. If there is too much merchandise in inventory, the item might not sell and the store will lose money on that item. You also learned that if a store has the wrong product in inventory, that situation might also cause financial loss. Just-in-time systems were developed to reduce the costs of inventory.

Just-in-time (JIT) is a distribution strategy: materials should not be delivered to the factory until the moment they are needed for production, 28-14. Similarly,



28-14

Just-in-time (JIT) uses EDI to order materials exactly when the factory needs them.

finished goods should not be delivered to a retail store until the moment they are needed for sale. The goal is to have no materials, supplies, or merchandise in inventory. When this goal is achieved (or nearly achieved), the costs associated with inventory go down.

The JIT production strategy is based on the automatic reorder system. In a factory, when inventory of a material falls to a specific number, an EDI message is sent to the materials supplier. The supplier then sends more materials to the manufacturer. The materials arrive just in time to be used in the production process.

For example, when a car is manufactured, the windshield usually comes from an outside supplier. The auto manufacturer could buy a warehouse full of windshields to have them on hand when each car is ready for windshield installation. That is the traditional way. With JIT, there

is an electronic connection between the car manufacturer and the windshield manufacturer. Suppose 20 cars will need windshields on Tuesday. An electronic message goes to the windshield supplier, who delivers 20 windshields Tuesday morning, just in time to be installed in the 20 cars ready for windshields. The car manufacturer saves the expense of keeping a warehouse full of windshields, plus the associated costs of inventory and moving the windshields to the factory.

For JIT to be successful, very close coordination between suppliers and manufacturers is necessary. Before the development of EDI, this kind of close coordination was not possible. With EDI, computers link all companies in the supply chain. For many manufacturers and retailers, JIT can save a great deal of time and money.

CHAPTER 28 REVIEW

Remember This

- Inventory planning is based on three factors: (1) assortment of items, (2) stock turnover, and (3) financial considerations.
- The five steps in handling retail stock are (1) receiving, (2) checking, (3) marking, (4) storage, and (5) stocking the store.
- Retail goods are marked to provide information for the customer and information for inventory control.
- The two methods of taking inventory are perpetual inventory and physical inventory.
- There are three main causes for inventory shrinkage: (1) data input errors, (2) theft, and (3) damage.
- Electronic data interchange can be used to create an automatic reorder system.

Review Concepts

1. What segment is at the end of the distribution channel?
2. Why is inventory planning important?
3. What is the difference between assortment breadth and assortment depth?
4. Give the equation for calculating stock turnover.
5. What is the objective of financial planning?
6. What is the area of a business where deliveries are unloaded called?
7. Describe each of the five steps in the stock-handling process.

8. Why is inventory control important?
9. What is the purpose of a stock-keeping number?
10. What is the difference between physical inventory and perpetual inventory?
11. What are the three main causes of inventory shrinkage?

Think Critically

1. Imagine that you are a buyer for a sporting goods store. What would you need to know in order to develop an inventory plan? How would you get that information?
2. If you owned a sporting goods store, which would you have, assortment breadth or assortment depth? Explain your answer.
3. Suppose that your stock turnover rate is low. What could you do to improve it?
4. How does a dollar merchandise plan help a store's buyer?
5. What might happen if the checking step were skipped during the receiving process?
6. What kinds of mistakes could be made during physical inventory? What might be the result of such mistakes?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out how inventory is handled. How does the perpetual inventory system

work? When do they do a physical inventory? What systems do they have in place for loss prevention?

2. Some stores specialize in assortment breadth; others specialize in assortment depth. Some have both. Visit several stores in your area. Make a list of stores that specialize in breadth, depth, or both.
3. Visit two retail stores, for example a grocery or hardware store and a clothing or sporting goods store. How does each store mark its goods? What information is on the tickets or stickers? Find the SKU numbers. Do they use bar codes? Where are the bar codes located?

Explore Careers

1. Read the article "Stock Clerks and Order Fillers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. How is computer technology affecting the demand for workers in this area? Visit a job Web site such as www.monster.com or www.ajb.dni.us (America's Job Bank). Use the key term "warehouse manager." Browse the available jobs. Are there any companies familiar to you that are looking for warehouse managers? List the companies. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Many retail warehousing and inventory jobs are in grocery stores and clothing/general merchandise stores. Read the articles "Grocery Stores" or "Clothing, Accessory, and General Merchandise Stores" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. At the beginning of each article is an NAICS number. What is this? What do stock clerks and order fillers do in these stores? What do the purchasing managers and buyers do? Would you be interested in working in either type of store? Visit the Web site of a store in one of these categories, and browse the available jobs. For example, visit the Web site of Target (www.target.com). Click on the "Careers" link and then "Career Areas." Notice that many of the career areas that we have discussed are listed. List the career areas available. Browse the available jobs and choose one that interests you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
3. Fashion merchandising is the career specialty that includes purchasing and selling clothing. Use library and Internet resources to learn about fashion merchandising as a career. Make a list of colleges that offer degrees in fashion merchandising. Read the catalog or visit the Web site of one of those colleges. Make a list of courses that you would take as a major in fashion merchandising. Search a job search Web site for jobs in fashion merchandising. Are any stores familiar to you looking for a fashion merchandiser? List those stores. Browse the jobs and choose one that interests you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

CHAPTER 28 REVIEW

Connect to the Internet

1. Visit a consumer Web site, such as www.amazon.com, www.walmart.com, or www.sears.com. Research one category, such as digital cameras. Find the SKU number for several products in that category. Choose another product category, such as athletic shoes, and find the SKU numbers for several products in that category. Can you figure out what the SKU numbers mean?
2. Imagine that you own a company and need to find warehousing space for your products. Use a search engine and enter the keywords "warehousing services." Research several firms. Choose one. Describe the firm, its services, and why you chose it.
3. Visit the Web site of APICS—The Educational Society for Resource Management (www.apics.org). What was the original name of this organization? Why do you think the name was changed but the old abbreviation kept? How does this organization help people working in production and inventory management?

Marketing Terms

e-commerce

Internet

World Wide Web (Web)

online

Web page

Web site

Web address

search engine

dot-com

bricks-and-mortar business

e-tailing

nonsecure connection

encryption

secure connection

multi-channel retailing

After studying this chapter,
you will be able to

- explain the difference between a dot-com and a bricks-and-mortar business.
- describe how B2B businesses use the Internet.
- list seven components of successful e-tailing.
- describe five challenges to e-tailing.
- describe how the Internet can be the method of delivery for products.
- explain how physical distribution is the same for e-tailers and traditional businesses.
- list eight advantages and seven disadvantages of e-tailing.

Imagine that you are a teenager living in the year 1990. You would not e-mail your friends. You would not buy anything over the Internet. You would not do research for homework assignments on the World Wide Web. Why not? At that time, the World Wide Web did not exist, and the Internet was not available to the general public.

Today the Internet and the World Wide Web are available to the general public around the world. All you need is a computer, an Internet connection, and the appropriate software. You can e-mail your friends, buy products, and do research for your homework via the Internet and the World Wide Web, 29-1.



29-1

Consumer and business activities that take place over the Internet are called e-commerce.

The Internet and the World Wide Web are also changing how companies do business. **E-commerce** (short for *electronic commerce*) is business activities conducted via the Internet. Business activities include buying, selling, promoting, product research, competition research, and customer service.



Reality Check

How do you use the Internet? How old were you when you first used the Internet?

E-Commerce Basics

E-commerce is possible because of the Internet and the World Wide Web. The **Internet** is a computer-based communications network. The word *Internet* comes from the words *interconnected networks*. The connections take place over telephone and cable wires. The newest technology connects the computers via wireless radio waves.

The Internet is a powerful means of communication because it connects millions of computers around the world. Computers

from individuals, businesses, organizations, and governments are all connected. The Internet was developed in the 1950s as a research and military tool. Now it is used by all types of people in all walks of life, everywhere.

The **World Wide Web (Web)** is the network of information sources that is available over the Internet. The Web was developed in 1993. The Web is part of the Internet. The software for the Web enables users to see text, pictures, video, and animation and hear sound. **Online** is the condition of being connected to the Internet or being available on the Internet. For example, online shopping is shopping that is done over the Web.

Information on the Web is organized into Web pages. A **Web page** is the smallest unit of information that can be accessed on the Web. On your computer screen, a Web page looks like a page in a book. One or more Web pages from the same source and connected by hyperlinks are a **Web site**. Individuals, companies, organizations, governments, and the military can have Web sites. The first page of a Web site is called the *home page*.

Another feature of the Web is hyperlinks, also called links. A *hyperlink* is a highlighted word or symbol, which, when clicked, takes you to another location in a document or Web page, or to a new Web site, 29-2. Hyperlinks are used to connect the pages of a Web site together. Hyperlinks make it easy to navigate through a Web site and to move from one Web site to other Web sites.

A Web site is identified and located on the Web by a unique set of letters, numbers, and symbols, called a **Web address**. The format for a typical business Web address is www.companyname.com. The letters “www” indicate that the address is on the Web. (Some Web addresses function without the “www.”) The “companyname” is a unique set of words, letters, words and numbers, or letters and numbers chosen by the business. The “.com” indicates that the source is a

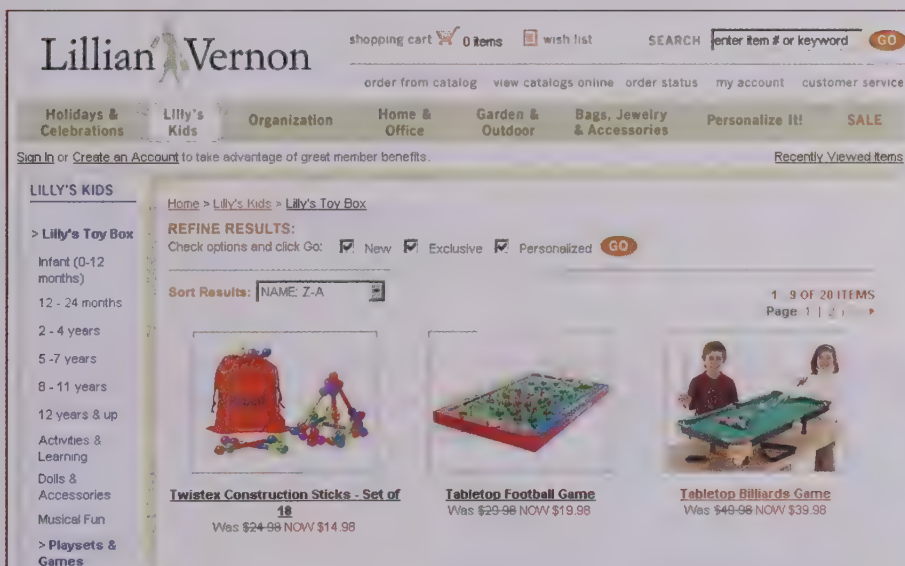
Example of Hyperlinks

Web Page of an Internet Retailer

Click on the highlighted area, and another Web page with related information will appear.



Clicking on the Link Takes You to This Web Page You can see more items in this category.



Courtesy of Lillian Vernon, www.lillianvernon.com

There are many links on this Web page. When the cursor passes over a link, the cursor will turn into a hand with a pointing finger. If you click on the link, your computer will display the Web page to which the link is connected.

commercial business. If the source is not a business, there are other letters that appear after the dot instead of ".com." Figure 29-3 shows several types of Web addresses. Country codes are also available, for example, UK for United Kingdom or JP for Japan.

If you do not have the specific Web address for a company, or you want to research a general topic, you can use a search engine. A **search engine** is software that searches the Web to find Web sites on your topic. You type a name or keywords into the input box. The search engine searches the World Wide Web, and then displays a list of Web addresses for you to visit. Popular search engines include www.Google.com and Ask.com.



Reality Check

Name the search engine that you use most often. Describe a search that you have performed.

Marketing on the Internet

The Internet is used most often for the promotion and place Ps of the marketing

mix. Chapter 41 will focus on promotion on the Internet. This chapter will focus on place on the Internet. The place P consists of how, where, and when products are available to customers. The goal of marketers is to offer goods, services, and ideas at the right places and at the right times. The Internet provides customers with easy and convenient access to products and information at any time from the comfort of their own computers.

Two types of businesses use the Internet: dot-coms and bricks-and-mortar businesses. The term *dot-com* comes from the fact that the Web addresses for commercial businesses end in ".com." A **dot-com** is a business that conducts all of its sales and most of its promotion online via a Web site. A dot-com has no buildings that customers physically visit. For example, Amazon.com is a dot-com that sells books, music, and other goods. It has no buildings or stores where customers can go to see and buy the books and other goods.

A **bricks-and-mortar business** is a business that serves customers from a building or store, 29-4. Sometimes a bricks-and-mortar business is referred to as a *traditional business*. Barnes & Noble is a bricks-and-mortar business that sells books, music, and other goods. There are many Barnes & Noble stores that you can go to. Many bricks-and-mortar businesses have

Some Types of Web Addresses

Type	Three-Letter Code	Example
Commercial organization (business)	.com	www.nike.com
Colleges and universities	.edu	www.harvard.edu
Government institutions and agencies	.gov	www.irs.gov
U.S. military groups	.mil	www.army.mil
Organizations not included above, such as nonprofits	.org	www.redcross.org

29-3

The format of an Internet address can give you an idea of what type of organization it is.



29-4

A bricks-and-mortar business has a location where customers can go to buy products.

added Web sites and now also do some of their sales and promotion on the Internet. For example, Barnes & Noble has a Web site, www.bn.com.



Reality Check

Have you seen the Four Ps on the Internet? Describe at least one example for each P.

Business-to-Business on the Internet

Business-to-business companies were the first to use the Internet extensively. EDI, explained in Chapter 28, enables businesses to communicate and exchange documents over the Internet. Many businesses use the Internet and EDI for automatic reordering and just-in-time (JIT) production.

Companies also use the Internet and the Web to research and purchase items for their businesses. Web sites contain product information, similar to a paper catalog. The advantage of a catalog on a Web site is that it can be updated quickly, more information can be presented, and videos or animations can be presented. For example, a manufacturer can find out the specifications, prices, and availability of materials it needs for production. That same manufacturer can show its line of finished goods on its own Web site to interested retailers.

Companies that have field sales representatives also use the Internet, 29-5. Sales representatives can use their laptop computers to check availability of products before promising shipment. Orders can also be placed instantly from any location. The computer then can deduct the new orders from inventory, so that the next salesperson will have an accurate count of products available. Sales representatives and customer



29-5

The Internet is especially useful for business-to-business (B2B) sales. For example, a sales representative visiting a client can use the Internet and a laptop computer to check on product availability and place an order.

service representatives also use the Internet to locate shipments and inform customers when to expect shipment arrival.

The Internet has revolutionized supply chain information within companies and between vendors and customers. Different divisions of the same company can communicate via the Internet. Data, such as new product designs, sales results, or financial numbers, can be sent instantly. Confidential information can only be accessed by people who know the password.

The Internet as Retail Place

The Internet is the new place to buy consumer goods. Today, consumers can buy almost anything over the Internet. Just enter the name of the item you would like to buy into a search engine. The search engine will generate a list of Web sites where you can buy that item.

Selling products to consumers over the Internet is called **e-tailing**, from the

words *electronic retailing*. Companies that sell to consumers online are often referred to as *e-tailers*. E-tailing is also called *online retailing*. All a consumer needs to shop online is a computer, an Internet connection and software, and a credit card.



Reality Check

Describe an experience you have had purchasing a product over the Internet.

Components of Successful E-tailing

In order for e-tailing to be successful, customers have to be able to easily do the things they do in a bricks-and-mortar store. In order for e-tailing to be successful, the e-tailer has to be able to carry out many processes that they would do in a bricks-and-mortar store.

Customers

A retail Web site must provide a way for customers to do the following:

- **Look at Products.** The Web site must provide information about the products for sale. Since the customer cannot touch the products, other means must be used. Many Web sites present their merchandise in a format similar to a paper catalog. There is often a list of product types to choose from. Once a category is chosen, photographs of the items are shown, with written descriptions and price, 29-6. Often, customers can click on the photograph for an enlarged photo and more detailed information.

Another service that many Web sites provide is reviews or evaluations of their products by other customers. For example, www.Amazon.com provides

reviews for many of their books, plus a ranking based on how many of that title were purchased by Amazon customers.

Many Web sites also enable customers to compare products. For example, www.Carmax.com has software that will prepare a "CarMax Vehicle Comparison Sheet." The sheet compares the photos, price, general information, and specifications of three cars at a time. The software also makes it easy to print out the comparison sheet.

- **Select Products.** The Web site must have a way for customers to indicate which products they want to buy. Many Web sites use the metaphor of a shopping cart or a shopping bag. There is no actual shopping cart or bag on a Web site; however, a virtual one is used to keep track of the customer's selections. The customer clicks on a link that says "Add to shopping cart" or "Add to bag." The virtual shopping cart or bag keeps a list of the items the customer has selected. The customer can also delete items from the shopping cart, 29-7.

- **Get Help.** When customers are shopping, they may have questions about the products and questions about using the Web site. Most Web sites have a page of FAQs, which stands for *frequently asked questions*. The page provides answers to the most common questions customers have asked. Most Web sites provide an e-mail address for e-mailing questions to the company. Many Web sites provide a toll-free number that customers can call to speak with a customer representative.

Some Web sites provide real-time online help. Special software enables the customer to communicate with a live customer service representative, while online. One type of software that enables this type of interaction is Instant Messaging. The customer types a question in an input box on the Web site. The question appears on the

computer screen of the customer service representative. The customer service representative then types an answer, and sends it to the customer to see on his or her screen.

- **Pay for Products and Receive a Receipt.** In a bricks-and-mortar store, the customer goes to the checkout counter and hands the cashier the products selected. The cashier totals the prices, adds in any taxes or other charges, and then tells the customer the total owed. The customer then hands the cashier cash, a check, or a credit or debit card. The cashier hands back a receipt. Mail order catalogs and TV shopping channels use paper checks or a credit/debit card number, provided either through the mail or over the phone.

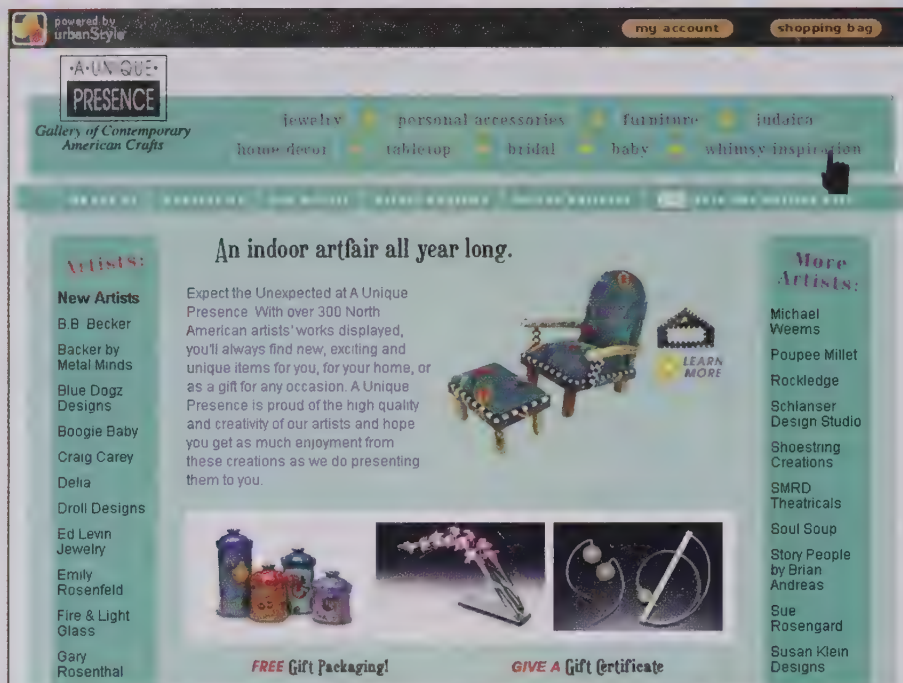
How does an online shopper, sitting in his or her home, provide payment to the online retailer? Many Web sites have a virtual checkout. When the customer is done shopping, he or she can click on a link that says "Proceed to checkout" or just "Checkout." The checkout screen provides the list of items purchased, the prices, and any additional charges. The most common way to pay is through a credit card number, 29-8. Online payment services have also been developed, for example, PayPal. Digital cash systems and digital wallets are also being developed. After the order is confirmed and payment is received, a receipt is usually sent to the customer's e-mail address. The customer can then print a receipt.

- **Return Merchandise.** As with products ordered through the mail or from a TV shopping channel, the goods might be defective or damaged in transit. The goods may also not be what the customer expected or wanted. An e-tailer must provide a reasonably easy way for goods to be returned and to ensure that the money is refunded to the customer.

Looking at Products on a Web site

Home Page with Categories

Click on a category, for example, "whimsy/inspiration."



Photos of Products in the Category

You can scroll up and down the page and move from page to page to see all the products in this category.



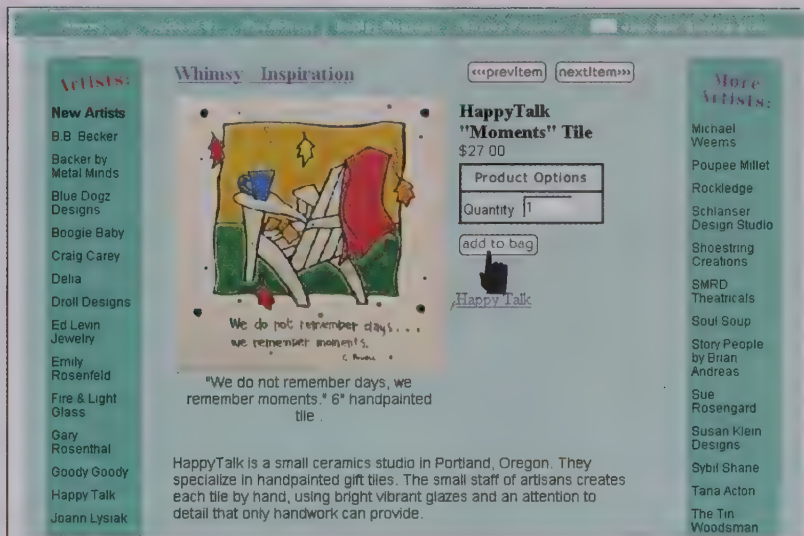
Courtesy of A Unique Presence, www.auniquepresence.com, 12/29/04

Looking at items on a Web page is similar to looking at items in a paper catalog. However, you can often get more information from the Web page. If you click on an item that you like, the computer will display another page with a larger photo and more detailed information. See Figure 29-7.

Selecting Products on a Web site

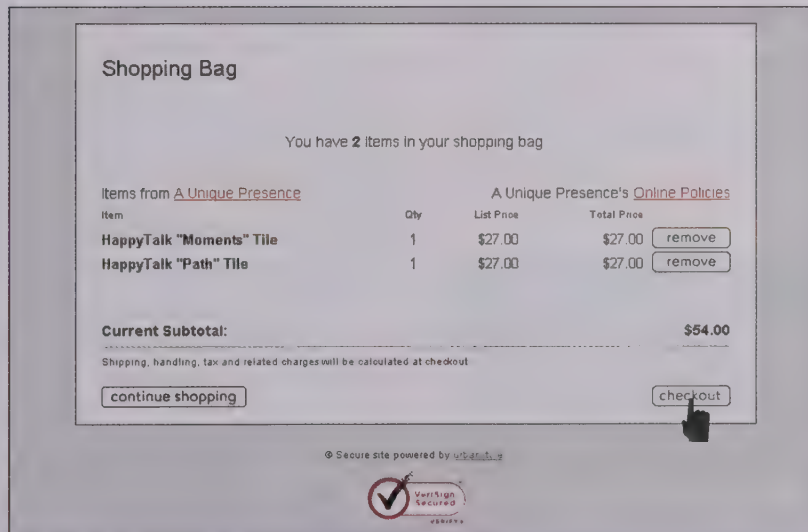
More Information

If you click on the small photo in Figure 29-6, you get this larger photo and additional information. If you want to buy the item, click on the link “add to bag.”



Shopping Bag

The virtual shopping bag keeps track of all your selections. You can also remove an item if you decide that you do not want it. To complete the transaction, click on the link “checkout.”



Courtesy of A Unique Presence, www.auniquepresence.com, 12/29/04

The customer selects an item and the number desired. The shopping bag or shopping cart keeps track of all selections and keeps a running total. A link called “remove” or “delete” can be clicked to remove items you decide you do not want.



29-8

A common way to pay for online purchases is by credit card.



Reality Check

Name an e-tailer with which you are familiar. How does that e-tailer's Web site accomplish the above components?

E-Tailers

In addition to providing ways for customers to accomplish the tasks just described, an e-tailer must be able to do the following:

- **Fulfill and Ship Orders Promptly.** Most e-commerce customers expect their online orders to be filled immediately. For example, suppose you order something in the middle of the night, but the item does not arrive for two months. In this situation, the Internet is not making shopping faster and more convenient for you. As a result, you might decide not to use that e-tailer or the Internet for shopping.
- **Attract Customers to the Web Site.** Customers have to know about your Web site and be able to find it. Many companies advertise their Web sites through traditional print, radio, and television advertising. Many people's business cards include the Web address of the company. E-tailers also advertise on other Web sites. For example, www.Google.com and www.Yahoo.com attract a large number of visitors. These Web sites sell advertising for other Web sites.

Challenges to E-tailing

When retailers began using the Internet in the mid-1990s, retailers used their Web sites more for promotion than selling. A number of concerns discouraged consumers from actually buying products over the Internet. Many of these concerns have been resolved to the satisfaction of some customers. Other customers are still reluctant to actually purchase over the Web. These challenges include the following:

- **Security.** Security of personal financial and other information continues to be a concern for many Internet shoppers. Typically, when a person logs onto the Internet and visits a Web site, any information exchanged can be seen by anyone on the Internet. An Internet connection over which anyone can see any of the information is called a **nonsecure connection**.

In order for an e-tailer to receive payment, the customer must send a credit card number over the Internet. Mailing address, phone number, and other personal information are often requested. Internet customers do not want their credit card numbers or other personal information to be generally available. To address this concern, Internet providers and retailers developed a process called encryption.

Encryption is a process that converts data into a form that can be read only by a person with an authorized code. An Internet connection that uses encryption is called a **secure connection**. No one else can see your information when you use a secure connection. When you are using a secure connection, a small icon of a closed lock appears on the Web page. Secure Internet connections guarantee customers that their personal financial information is safe.

Other security technologies are being developed. For example, Visa has developed "Verified by Visa." This technology verifies that the Visa card number is authentic and only the authorized cardholder is placing the order.

- **Privacy.** A related but separate concern from security is privacy. When a person visits a Web site, the technology can keep records of every purchase and every click. Many customers are uneasy about a company having this type of information about them. Many e-tailers develop a policy that protects the privacy of customers.

Most e-tailers have a link on their home pages called "Security" or "Security & Privacy." Clicking on this link will take the customer to a Web page that describes how that Web site ensures security and privacy.

The Better Business Bureau has developed a program to promote trust

and confidence in e-tailing, BBBOnLine, located at the Web site www.bbbonline.org. The program has published a code of online business practices. BBBOnLine also provides reliability and privacy seals to businesses that meet their criteria, 29-9.

- **Web Site Effectiveness.** There are many components to Web site effectiveness. One technological requirement is that the Web site load quickly.

The first page of a retail Web site is often called the storefront. This first page must be designed to attract customers. The Web site must also be easy to use. It must be easy to view the products, select them, and purchase them. More than half of online shoppers leave a Web site without making an intended purchase. The reasons are usually variations of "I did not understand what to do."

Web sites should also strive to make the online shopping experience pleasant and unique. The online experience should provide benefits not available from bricks-and-mortar shopping. Possible benefits include speed and ease of purchase, customized notices of products on sale, special prices or items available only through the Web site, and newsletters and other information related to the product.

- **Slow Connections.** Slow and inconsistent connections interfere with the online shopping experience. When storefronts take a long time to load, customers get impatient. If an Internet connection breaks while making a complex purchase, such as an airline ticket, the customer gets frustrated. In order to buy the ticket online, the customer will have to reconnect and go through the selection and purchasing procedure again. The availability of high-speed Internet connections has reduced these problems.


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BBBOnline Programs

- Reliability Program
- Privacy Program

Participant Log In

Username:

Password:

[Log In](#) [\[Password?\]](#)

[Safe Shopping Site](#)
[BBBOnline Information](#)

BBBOnline Programs

Reliability Seal Program (19760 websites)

"73% of purchasers and 82% of non-purchasers cite reliability of business as a major concern when shopping online."* Address this concern head-on with the BBBOnline Reliability Seal.

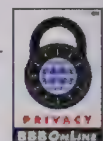
- ▶ To see Reliability program standards including links to the BBB Code of Online Business Practices, the BBB Code of Advertising and dispute resolution requirements, [click here](#).
- ▶ To apply for the Reliability seal, [click here](#).



Privacy Seal Program (627 websites)

"Almost 90% of online shoppers would feel more confident shopping on a site that displays the BBBOnline Privacy Seal."* Don't let lack of confidence in your site turn potential consumers away.

- ▶ To learn more about the Privacy program, [click here](#).
- ▶ To apply for the Privacy seal, [click here](#).



Read the latest news about BBBOnline and sign up for our monthly newsletter.

* Greenfield Online Survey, 2001

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The Better Business Bureau developed the reliability and privacy seals to increase consumers' confidence in the safety of buying online.

■ Preference for Traditional Stores.

Some customers just prefer to go to a traditional bricks-and-mortar store or a store with which they are familiar. Many customers research their purchases on the Internet, and then make the actual purchase in a bricks-and-mortar store. As brands of e-tailers establish good reputations, more customers will be willing to shop and purchase online.

Multi-Channel Retailing

E-tailing has made a major contribution in the area of multi-channel retailing. **Multi-channel retailing** is the use of more than one type of retail outlet within one company, 29-10. Types of retail outlets include bricks-and-mortar stores, direct-mail catalogs, TV shopping channels, and Web sites. A multi-channel retailer might have a chain of bricks-and-mortar stores and a direct-mail catalog. It might then add a Web site as a third retail channel.



Reality Check

Describe at least one problem you have had when buying something over the Internet.



Photo courtesy of Lillian Vernon Corporation

29-10

The Lillian Vernon Company is a multi-channel retailer. The company started out as a direct-mail cataloger. It now has a Web site and stores.

Retailers that use a combination of retail outlets benefit from the advantages of each retail type. They are able to attract customers who might have preferences for different types of retail outlets. For example, in 2003, the Home Shopping Network, a TV retailer, put a great deal of effort into improving its Web site, HSN.com. The goal was to increase sales by appealing to customers who watch the TV program but prefer to purchase online. The www.HSN.com Web site also enables viewers who missed the details of a product on the TV to check out those products online. The effort was successful and the total number of sales increased.

Many consumers like to research purchases online, but prefer to make the actual purchase in a bricks-and-mortar store. This is especially true for major purchases, such as a car. Online car shopping sites provide a great deal of information. They also make it easy to compare various makes and models. Once a car shopper has done the Internet research, he or she will visit a bricks-and-mortar dealership to make the purchase.

**Reality Check**

Name at least one retailer that uses multi-channel retailing. Describe each channel that it uses.

Distribution on the Internet

The Internet can *be* the method of delivery for some services and for many ideas. For example, the purchase of airline tickets online is very popular and successful. Hotel rooms and cars can also be rented over the Internet. Concert and movie tickets can be purchased over the Internet, too. A movie ticket service, Fandango, has become quite popular. It saves the time and stress of waiting in a long line for movie tickets.

Services, such as online banking, are becoming mainstream, 29-11. Customers can check their balances, see automatic credits and debits, transfer funds between accounts, view their cancelled checks, and pay their bills—all from the comfort of home!

The Internet has always been efficient for delivering information. Before the Internet and Web were available to the general public, much research had to be done by going to a library or by writing to a company for information. Now these sources of information are on the Internet, available on your home computer at any hour of the day or night. For example, the U.S. government provides a great deal of information through the U.S. Census Bureau. You can access that information at any time at the Web site www.census.gov.

The Internet is also used for political campaigns, that is, the idea of getting people to vote for a specific candidate. Web sites, web logs (blogs), and online discussion groups are a quick and relatively inexpensive way for candidates to reach voters. Jesse Ventura was the first political candidate

**29-11**

Many services and ideas are delivered directly from the Internet to the consumer. Online banking services are widely used.

to successfully use the Internet in his 1998 campaign for governor of Minnesota.

Distribution for E-tailers

It has been said that a company's Web site is only as good as its delivery service! Merely creating a snazzy Web site and providing information about the company and its products does not result in sales and profits. Goods still must get to customers quickly and undamaged. The customer should not wonder, "Am I going to get what I ordered? When? Where? How?"

Internet companies need to do efficient order processing, warehousing, packing, and shipping.

Physical Distribution

Many aspects of distribution remain the same for Web-based businesses as for traditional businesses. Goods that are offered via the Internet must be transported to the right places by the physical methods of trucks, ships, trains, planes, and pipelines. Many e-tailers do not have their own shipping facilities. They use the services of FedEx, UPS, and the U.S. Postal Service to deliver their goods to customers.

Additionally, companies must make it easy for customers to cancel orders and return merchandise for exchanges or refunds. E-tailers should clearly state their return policies and procedures on their Web sites. Many companies provide preprinted labels and return instructions within the product package. Sometimes free pickup service is offered. For some e-tailers, returns can be made to their local bricks-and-mortar business.

Inventory

Keeping sufficient inventory can be a challenge for an e-tailer. When an e-tailer markets to the world, it is hard to predict customer demand. In addition, online shoppers expect their orders to be filled immediately. To be successful, the e-tailer must be prepared with enough product, efficient methods of distribution, and efficient inventory control to meet demand, 29-12.

At first, very few products may be ordered. If the e-tailer has a great deal of inventory in stock, the e-tailer might lose money. On the other hand, there may be a

huge demand in a short period of time. If the e-tailer does not have enough product or efficient means to deliver it, customers might be disappointed and not purchase again.

Many e-tailers use automatic reorder systems. The use of bar codes and EDI enable constant communications among companies in the supply chain. These systems also enable the e-tailer to know exactly what is in inventory at all times. Only when items come into the warehouse are they shown on the Web site. Products are only listed on the Web site when they are available to ship. Also, when a customer orders goods, those goods are instantly reserved for that customer in the computer system and then shipped. This type of immediate response to customers can make the difference between success and failure in the competitive world of e-commerce.

Future of E-tailing

The volume of purchases by consumers has grown a great deal since Internet shopping first started in the mid-1990s. However, by 2003, Internet shopping was only 4.5 percent of total U.S. retail sales. Despite the relatively low percentage of actual online sales, Internet retailing has a much larger impact on retailing as a whole, and it continues to grow at a fast pace. E-commerce has created jobs and lowered expenses for businesses and consumers. Web sites enable businesses to offer better customer service and information, even if they do not sell products online. Today it is expected that every respectable business will have a Web site that at least provides information.

Advantages

E-commerce provides many advantages. More advantages will develop as e-commerce specialists improve technology and develop innovations.

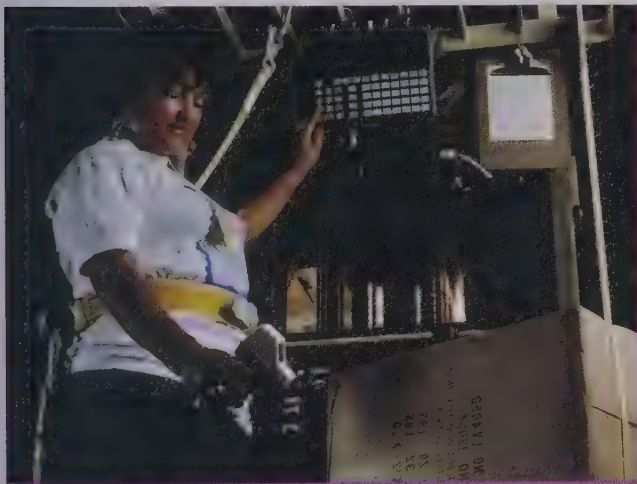


Photo courtesy of Lillian Vernon Corporation

29-12

E-tailers must have efficient inventory control. This worker uses a scanner and computer to keep control of inventory at Lillian Vernon.

- **Low Initial Investment.** An e-business does not have to buy, rent, or build a building to get started. As a result, it is often easier and less expensive to start an e-business.
- **Worldwide Exposure.** The Internet provides access to prospective customers anywhere in the world.
- **Constant Availability.** The Internet can be accessed at any time of the day or night. Information can be added or changed at any time. Customers can access the Internet whenever it is convenient for them. International time zone differences do not matter.
- **Instant Updating.** Information can be updated instantly. For example, new prices can be added. Old information can be deleted instantly. The e-tailer does not have to worry that the customer is using an old, out-of-date catalog.
- **Equalized Market Access.** Small companies have the same access to potential customers as large companies.
- **Easy Information Access.** Free information is available on Web sites sponsored by businesses, government agencies, universities, and trade associations. Businesses can gather information about competitors and customers. Customers can gather information about products and the companies that offer them.
- **Ability to Collect Customer Information.** Every time a customer visits a Web site, information about that customer can be gathered into a database. Information is often gathered through site registration, questionnaires, and as a part of taking an order.
- **Ability to Target Marketing Messages.** The information gathered about customers can be used to tailor specific messages to specific types of customers. For example, some Web sites greet you

by name when you open the home page, and list personalized product suggestions, based on your previous purchases.

Disadvantages

There are some disadvantages to e-commerce, but the developments in technology are decreasing the disadvantages.

- **Security.** Despite the development of encryption and other security technologies, many consumers are still reluctant to provide credit card numbers and other personal information over the Internet.
- **Privacy.** Despite privacy policies, many consumers do not trust e-tailers to maintain customer privacy.
- **Cost of Web Site Setup and Maintenance.** Many businesses do not have the expertise to set up their own Web sites. These businesses often hire outside contractors to develop and maintain their Web sites. The costs of setting up and maintaining a Web site must be figured into the company's budget and profit calculations. However, many small businesses do set up and maintain their own Web sites at relatively little expense.
- **Internet Connection Problems.** Dial-up Internet connections are prone to frequent disconnects and slow loading times. As time goes on, more and more customers are getting high-speed dedicated Internet connections, which are faster and do not disconnect unexpectedly.
- **Distribution Problems.** Many e-businesses still have not developed good physical distribution systems. When customers do not receive products in a timely fashion, they are discouraged from using that e-business.

- **Product Quality Problems.** Customers can be disappointed at the quality of the products received from an e-business. However, these problems seem to be about equal to the problems of direct-mail marketers and TV marketers. Simplified methods for returns also help reduce this problem.
- **Consumer Reluctance.** Many consumers are still reluctant to purchase over

the Internet, for some of the reasons described in this sentence. In addition, some consumers prefer to go to a bricks-and-mortar store where they can handle or try out the goods they plan to buy. Others simply prefer to use bricks-and-mortar businesses that they are familiar with and trust.

Despite these disadvantages, e-tailing is growing each year.



Although many people are concerned about security and privacy, more and more people are buying on the Internet each year.

CHAPTER 29 REVIEW

Remember This

- A dot-com is a business that does all of its selling on the Internet; it does not have an actual store. A bricks-and-mortar business serves customers at a store; it may also have a Web site.
- B2B businesses use the Internet for automatic reordering, JIT production, research, placing orders, communicating with field sales representatives, and customer service.
- Successful e-tailing provides customers with ways to do the following: (1) look at products, (2) select products, (3) get help, (4) pay for products and receive a receipt, and (5) return merchandise.
- To be successful, an e-tailer must also (1) fulfill and ship orders promptly and (2) attract customers to the Web site.
- Five challenges to e-tailing are the following: (1) security, (2) privacy, (3) Web site effectiveness, (4) slow connections, and (5) customer preference for traditional stores.
- Services (such as banking), and ideas (such as political campaigns) can be delivered via the Internet.
- E-tailers have the same needs for physical distribution methods as traditional businesses.
- There are advantages and disadvantages to e-tailing. However, most customers expect businesses to have a Web site.

Review Concepts

1. What business activities can take place on the Web?
2. What do hyperlinks do?
3. What is the difference between a dot-com and a bricks-and-mortar business?
4. How do B2B businesses use the Internet?
5. In order for customers to use a Web site for e-tailing, what do they have to be able to do? List five actions.
6. What does a virtual shopping cart do for the customer who is shopping on a Web site?
7. What is the most common way for an online shopper to pay for products?
8. How does an online shopper get a receipt for products purchased online?
9. Why do online shoppers want to use secure connections for their transactions?
10. What would you know about a Web site if you saw the BBBOnLine seal of reliability?
11. List five products that can be delivered over the Internet.
12. E-tailers do not have a bricks-and-mortar building. Can they forget about distribution, too? Explain your answer.

Think Critically

1. Imagine that you are the owner of a company that is setting up a Web site. What would you want your Web address to be?

2. Give an example of how you might use a search engine.
3. How is the home page of an e-tailer's Web site like the storefront of a bricks-and-mortar retail store?
4. Why would a bricks-and-mortar business want a Web site?
5. How is distribution handled for e-tailers?
6. Suppose an e-tailer does not want to own trucks or warehouses. What could such a business do?
7. Why do consumers worry about security and privacy when visiting a Web site?
8. In 2003, Internet shopping was only 4.5 percent of total U.S. retail sales. Why are online shopping and e-tailing important?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out if they use the Internet for distribution. Does the business have a Web site? How long have they had it? Does someone in the company run the Web site, or have they hired an outside firm to do it? What percentage of total sales comes from the Web site?
2. Make a list of businesses in your area that have Web sites. Visit these Web sites and compare and contrast the information you can obtain from each site. Prepare a visual display of what each site looked like.

Explore Careers

1. Use library and Internet resources to learn about careers in Web site development. What kinds of skills, abilities, and knowledge do you need to be a Web site developer? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a Web site developer. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Ten years ago, the career of Web developer did not exist. What new careers will be available in the future? Use library and Internet resources to find out. Use keywords "cybercareers" and "careers of the future."

Connect to the Internet

1. Visit the Web site of a consumer e-tailer. Find the link for "Privacy" and/or "Security." Click on those links. Describe what this e-tailer does to protect the privacy of its customers and reduce fears about identity theft.
2. View the Web site of a consumer e-tailer. How does this e-tailer provide the seven components of successful e-tailing?
3. Imagine that you want to buy a used car. Visit the CarMax Web site (www.carmax.com). How does this Web site make it easy for you to compare products? Choose three vehicles and print the CarMax Vehicle Comparison Sheet.

What price should
you charge?



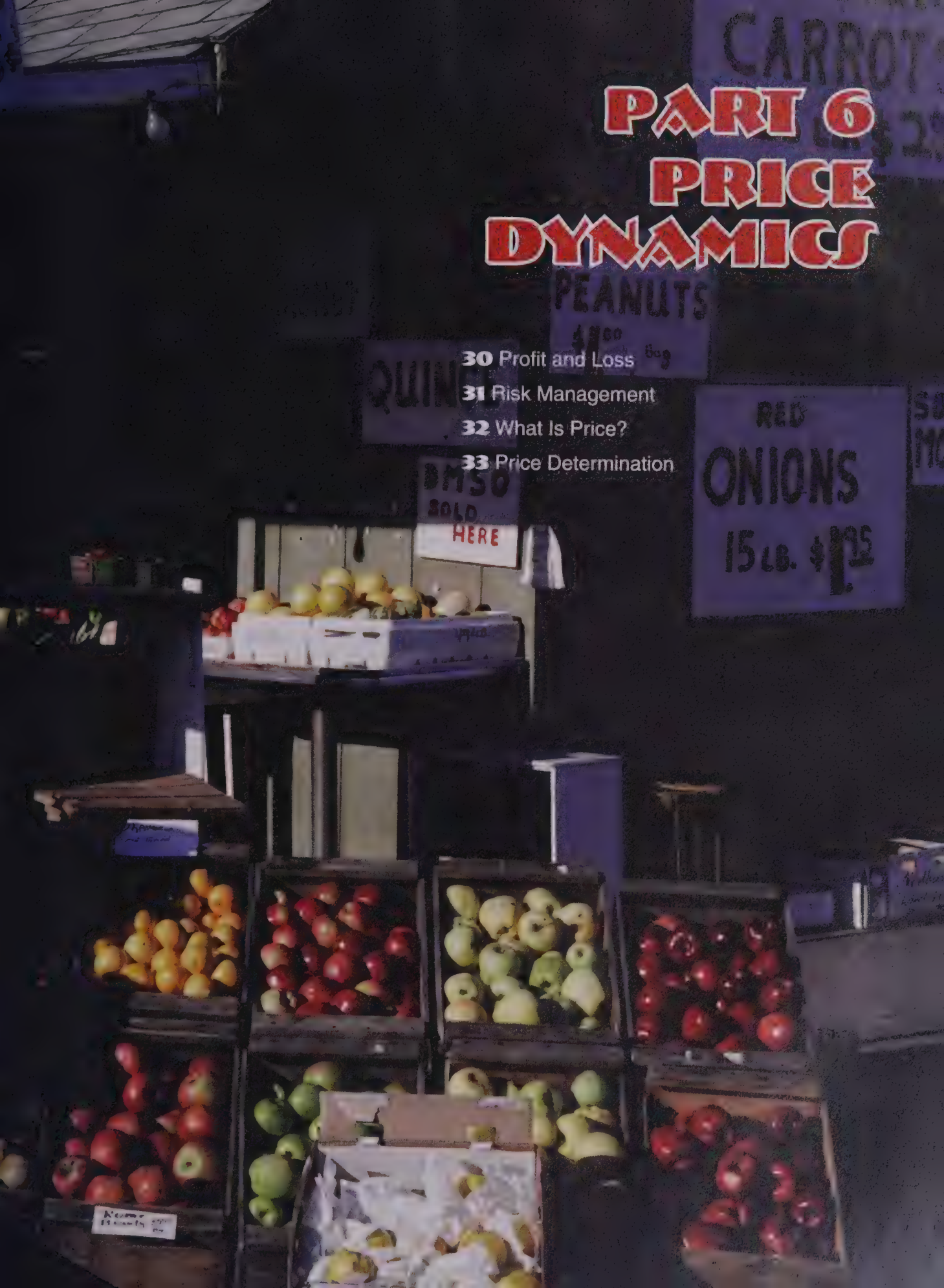
PART 6 PRICE DYNAMICS

30 Profit and Loss

31 Risk Management

32 What Is Price?

33 Price Determination





After studying this chapter,
you will be able to

- explain the difference between an asset and a liability.
- describe two main financial reports.
- give the equation on which a balance sheet is based.
- give the equation for calculating profit.
- explain how price can affect profits.
- explain why businesses have budgets.
- describe the financial services that businesses use.

Marketing Terms

asset
liability
debt
loan
interest
revenue
expenses
net worth
balance sheet
income statement
bottom line
financial planning
budget
financial institution
financial services

Have you ever seen a “going out of business sign” in a storefront? Stores often go out of business when they make little or no profit or are losing money. There are many reasons why a store goes out of business. Price setting can be one of the problems.

Setting prices is a critical part of the marketing mix and business success. However, price setting is not done in a vacuum. In order to set prices that lead to business success, you need to understand the basics of business financing.

In this chapter, you will learn about financial basics, financial reports, and financial planning. The finance function of business is responsible for handling

everything related to the flow of money in the business. Accounting is part of the finance department. The accounting department is responsible for keeping track of assets, liabilities, revenues, and expenses. The accounting department also prepares the financial reports. Financial planning is usually done by the managers of the company, with input from the accounting department. Sound financial planning and financial management are needed for success in business, 30-1.

Finance Basics

In order to understand financing, you need to learn several basic concepts: assets, liabilities, revenues, and expenses.

Assets

An **asset** is something of value that a business owns. Assets include buildings, cash, inventory, and equipment, 30-2. *Total assets* consist of all the assets that a business has. Total assets vary over time.

Imagine that you own a store that sells sporting goods. Your assets would include the building and the land it is on, the cash in your cash register and in the bank, all the goods you have in the store to sell, all the furnishings that you bought, all the office equipment such as computers and cash registers, and all the office supplies.

Suppose that you have a factory that makes jeans. You own the factory building, cutting and sewing machines, additional factory equipment, a warehouse, and



30-1

What makes a business successful? Successful businesses are usually based on sound financial management and planning.

**30-2**

No matter what kind of business you own, your assets include all the items of value that the business owns. For example, this garden supply store's assets include all the plants, the building, the greenhouse, cash in the registers, other goods for sale, computers, and equipment.

trucks to take items to and from the warehouse. The factory building, cutting and sewing machines, additional factory equipment, warehouse, and trucks are part of your assets.

In addition, suppose that your warehouse is half full of finished jeans waiting to be delivered to retailers. Suppose that the other half of your warehouse is full of denim fabric waiting to be made into jeans. The jeans and the denim are your inventory. The finished jeans and the denim fabric are also part of your assets.

Another part of assets is accounts receivable. *Accounts receivable* consist of the money that customers owe you and have

promised to pay. For example, as the owner of the jeans factory, you have sold 100 pairs of jeans to a retailer at \$20.00 per pair, for a total of \$2,000. The retailer has promised to pay within 30 days. As of today, you do not yet have the money. However, the \$2,000 is considered to be part of your cash assets.



Reality Check

Do you have any financial assets? Think of things you own that you could sell. Do you have a savings account? Make a list of your financial assets.

Liabilities

A liability is the opposite of an asset. An asset is something the business owns. A **liability** is money that the business owes to another business, organization, government, or individual. Another term for liability is **debt**.

The most common liabilities are loans and accounts payable. A **loan** is money that has been borrowed with a promise to repay it. Loans are usually obtained from banks. The cost of a loan includes a fee and interest. **Interest** is the cost of borrowing money. Interest is usually charged as a percentage of the money borrowed.

Accounts payable consists of money that the company owes to other businesses and has promised to pay. Accounts payable usually consists of not-yet-paid invoices for goods and services that the business has purchased. For example, the retailer bought 100 pairs of jeans at a cost of \$2,000, but has not paid it yet. The retailer has an accounts payable of \$2,000. This accounts payable of \$2,000 is one of the retailer's liabilities.



Reality Check

Do you currently have any liabilities? A liability would be money that you owe to another person. Describe any liabilities that you have.



30-3

Revenue is the money the business receives for the goods and services that customers buy from it.

Revenue

Revenue is the money that a business takes in for the products it sells, 30-3. Revenue is also called *income*, *sales*, or *receipts*. The term revenue is sometimes used in the plural, revenues. Revenue is calculated using the following equation:

$$\text{Revenue} = (\text{Price per item}) \times (\text{Number of Items Sold})$$

For example, imagine that you are the owner of a jeans factory. You sold 2,000 pairs of jeans at \$20 each. The time period during which you sold these jeans was January through March 2006. Your revenue is $(\$20) \times (2,000) = \$40,000$. For a company that sells more than one item and each item is a different price, revenue is calculated for each item at each price; then all the revenues are added together.

Revenue varies over time. Revenue is usually calculated and reported for a specific time period. A commonly used time period is a quarter, that is, three months. For example,

revenue for the jeans factory for January through March 2006 was \$40,000. Managers often give top executives a quarterly revenue report.



Reality Check

Have you ever been involved in an activity that raised money? The money you raised was your revenue. How much money did you raise and how did you raise it?

Expenses

Expenses are the opposite of revenues. Revenues consist of money that comes into the business. **Expenses** consist of money that goes out of the business to pay for the things that a business buys. There are many different types of expenses. Accountants in the finance department keep track of business expenses. Two basic types of expenses are cost of goods and operating expenses.

Cost of goods consists of the money spent to buy materials to make goods. For example, in the jeans factory, money spent to buy denim fabric is part of the cost of goods. Cost of goods also refers to the money that a retailer spends to buy wholesale goods for resale in the store, 30-4. *Operating expenses* consist of the money spent to run the business. Operating expenses include utilities (heat, electricity, water), rent, advertising, telephone, employee wages, and taxes. Service businesses often have only expenses because they do not sell goods. Total expenses are usually reported for a specific time period. To calculate the total expenses, add the cost of goods plus the operating expenses:

$$\text{Total Expenses} = \text{Cost of Goods} + \text{Operating Expenses}$$



30-4

For a retailer, cost of goods refers to the money the owner spends to buy goods to sell in his or her store. For a manufacturer, cost of goods refers to the money spent to buy the materials to make the goods.



Reality Check

At the beginning of the school year you have expenses connected with school. Make a list of your expenses for starting school. For example, if you buy 10 pens at \$1.00 each, one of your expenses would be \$10.00 for pens.

Financial Reports

Financial reports are like student report cards. Financial reports tell how a business is doing. Is the business financially healthy? Is the business in trouble? There are many financial reports that help answer these questions. Two of the main financial reports are the balance sheet and the income statement.

Balance Sheet

Sometimes it is helpful to know the value of a business on a certain date. The value of a company is called **net worth**. Net worth is also called *owner's investment* or *owner's equity*. A **balance sheet** is a financial record that shows a company's net worth. A balance sheet is like a snapshot that shows the value of the business on a specific date.

A balance sheet uses the record of the company's assets and liabilities to calculate the value of the company. A balance sheet is based on the following equation:

$$\text{Assets} = \text{Liabilities} + \text{Net Worth}$$

Based on this equation, net worth equals assets minus liabilities:

$$\text{Net Worth} = \text{Assets} - \text{Liabilities}$$

A balance sheet has a standard format. Assets are listed on the left. Liabilities and net worth are listed on the right. On a balance sheet, the total assets must equal the total liabilities plus net worth. A double line under a number indicates a final total. Balance sheets can be very complicated, especially for a large business. The sample in Figure 30-5 is very simplified.

Balance sheets are often prepared for the last day of the year for that year. Then the assets, liabilities, and net worth for several years can easily be compared. In general, if the net worth is going up, the company is doing well. If the net worth is going down, the company may be having financial difficulties.

Simple Balance Sheet

Balance Sheet ABC Company December 31, 20xx

Assets		Liabilities	
Cash	527	Accounts Payable	6,000
Accounts Receivable	2,478	Loan	8,000
Inventory	6,747	Total Liabilities	14,000
Equipment	4,875	Net Worth	1,025
Supplies	398	Liabilities + Net Worth	15,025
Total Assets	<u>15,025</u>		

30-5

Businesses prepare a balance sheet to show the value of the business on a specific date. A balance sheet is like a financial snapshot of the business on that day.



Reality Check

How is the balance sheet for a business like your school report card?

Income Statement

How does a business determine whether it is earning or losing money? The accountants prepare an income statement. An **income statement** is a financial report that shows whether a business has made or lost money during a specific time period. An income statement may also be called *profit and loss statement*, *P&L*, or *statement of earnings*. As you learned in Chapter 2, profit is the money that a business has left after all the expenses of running the business are paid.

Calculating Profit (and Loss)

The following equation is used to calculate profit:

$$\text{Profit} = \text{Income} - \text{Expenses and Costs}$$

If income is larger than expenses, the result of this equation is a positive number. A positive result is referred to as a profit. If the expenses are larger than the income, the result of this equation is a negative number. A negative result is referred to as a loss. In accounting, a loss is indicated by placing the number in parentheses.

Suppose Company X has income for July of \$35,000. Company Y has income for July of \$47,000. Which company has the larger profit? The correct answer is that you cannot tell. You do not have enough information. You need to know the expenses each company had for the month of July. You then need to use the profit equation to determine the profit for each company, 30-6. After you have completed the calculations, you see that Company Y actually had a loss, even though its income was larger.

Calculating Profit and Loss

Company X

Formula

$$\text{Profit} = \text{Income} - \text{Expenses}$$

Data

Time Period: July

Income = \$35,000

Expenses = \$25,000

Calculation

$$\text{Profit} = \$35,000 - \$25,000$$

$$\text{Profit} = \$10,000$$

Company X has a profit of \$10,000 for July.

Company Y

Formula

$$\text{Profit} = \text{Income} - \text{Expenses}$$

Data

Time Period: July

Income = \$47,000

Expenses = \$67,000

Calculation

$$\text{Profit} = \$47,000 - \$67,000$$

$$\text{Profit} = -\$20,000$$

$$\text{Loss} = (\$20,000)$$

Company Y has a loss of \$20,000 for July.

30-6

You cannot assume the amount of profit a company made based only on income. You must take into account the expenses and costs the company had during the time period.

Effect of Price on Profits

How can the prices of products affect profit? The price at which a company sells its products affects the size of income. Here is a very simplified example. Imagine a company that sells one product, a box of cookies. To determine the cookie company's profits, you first determine the revenue. Suppose that the company sells 1,000 boxes of cookies in July. The amount of revenue from the 1,000 boxes of cookies depends on the price. If the cookies are sold for \$1.00 per box, then revenues are \$1,000. If the cookies are sold for \$1.50 per box, then revenues are \$1,500. If the cookies are sold for \$2.00 per box, then the revenues are \$2,000. If expenses stay the same, at which price are profits the highest? At \$2.00 per box.

However, a company cannot just keep raising prices. At some point, people will not buy the cookies because they are overpriced. Expenses can also affect profits. If expenses can be lowered, profits will go up.

Setting Up an Income Statement

An income statement shows the revenue, expenses, and profits for a specific period of time. Income statements can be prepared monthly, quarterly, every six months, or yearly. Many companies prepare year-end income statements. Year-end income statements show how well the business did for the entire year. The year-end income statement is also used to calculate taxes owed. Management uses the year-end income statement for planning and decision making.

An income statement has a standard format, 30-7. First, all the revenues for the time period are listed. These revenues are then totaled to provide the total revenue for the time period. Next, all the expenses are listed. These expenses are totaled to provide the total expenses. Then the total expenses are subtracted from the total revenues. The

Sample Income Statement for a Service Company

Income Statement Fred's Service Company Month Ending July 31, 20xx

Revenue

Fees for service	\$ 5,000	
Total Revenue		\$5,000

Expenses

Salary	\$ 3,000	
Rent	\$ 1,000	
Insurance	\$ 200	
Supplies	\$ 100	
Advertising	\$ 500	
Total Expenses		\$4,800

Net Income for Month		\$ 200
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30-7

Income statements can be used to monitor how the business is performing financially. It can often help the business catch financial problems before they become serious.

result is written on the bottom line of the income statement. If the result is positive, the company has a profit. Profit is also called *net income*. If the result is negative, then the company had a loss.

The term *bottom line* that you hear in reference to business comes from the income statement. The **bottom line** is the last line of an income statement; it shows whether a business has made a profit or had a loss. Income statements can be very complicated, especially for a large business. The sample in Figure 30-7 is very simplified. It is for a service company. Many service companies only have expenses (no cost of goods sold) because they do not buy goods for resale.

Financial Planning

Financial planning is the process of setting financial goals and developing methods for reaching them. Most businesses are more successful when they set goals and develop plans to achieve those goals. Budgets are often used during financial planning. Many businesses get help from businesses that provide financial planning services.

A business may have a variety of goals. One of the goals is usually to earn a specific amount of profit. Other goals include introducing a new product, improving promotion, building a new building, and increasing market share. Most business goals involve money. For example, if a business wants to improve its promotion, it will need money to hire a promotions manager and to pay for advertising. Many businesses make financial plans to help them reach their goals.

Budgets

A **budget** is basically a financial plan for a business, 30-8. Most businesses have a limited amount of money. The managers must decide how to spend the money that they have. They must determine which items are the most important to buy. A budget indicates how much money the business expects to make (revenues, income). The budget then shows how that money will be spent (expenses, costs). A carefully planned budget will show how the business plans to cover its expenses. A budget will also show where the profit will be made. Budgets can be prepared for a month, a quarter, six months, or a year. Many businesses prepare a budget for the year, and then break it into a budget for each month.

A large manufacturing business will prepare a budget for the whole business. It will be based on the individual department budgets. For example, think about the jeans factory. Suppose the sales department



30-8

A budget is usually based on an analysis of how the business performed over the past year or two. This information is used to project income and expenses for the coming year. The budget helps managers plan how to spend money and cover expenses.

plans to sell 10,000 pairs of jeans at \$20 each for a revenue of \$200,000. The production department will have to make sure that its budget covers the cost of manufacturing 10,000 pairs of jeans. The promotion department must make sure that it includes enough money to cover the promotion of 10,000 jeans. Upper management will then look at all the budgets and make sure that the company as a whole can afford the plans. If there is not enough revenue to cover expenses, the company will either have to reduce expenses or increase revenue (or get a loan). Upper management will also review the budget to make sure that the company is earning enough profit. If revenue and profits are not high enough, management may decide to raise prices. Management could also decide to cut expenses.

Most budgets are based on revenues that have not yet been earned and expenses that have not yet been paid. A budget that is prepared at the beginning of the year will estimate how much revenue the company hopes to make. It will also estimate the expenses for the coming year. It will then estimate how much profit will be made. At the end of the year, the accountant will prepare the year-end income statement. Then the managers will compare the estimates of revenue, expenses, and profit in the budget with the actual revenue, expenses, and profit on the income statement. This comparison will show management how accurate the budget was. It will also help them plan the budget for the next year.



Reality Check

Do you have a budget for your personal expenses? How do you develop your budget?

Financial Services

Businesses often use financial services to help them achieve their financial goals. A **financial institution** is a business whose product is a service: handling money. Financial institutions include banks, credit unions, currency exchanges, investment companies, finance (loan) companies, and insurance companies. **Financial services** are the money-handling services that a financial institution provides. Financial services include the following:

- **Deposits and Checking.** Most businesses need a safe place for their revenues. An office safe is not really safe enough. Almost all businesses deposit their revenues in a bank account. A bank account provides the added possibility of earning interest. Most businesses use bank accounts to deposit their revenues and write checks to pay bills.

- **Loans.** Sometimes a business does not have enough money to cover its expenses. Sometimes a business wants to expand or invest in new product development but does not have enough money on hand. In such cases, a business may decide to borrow money. For example, a toy business earns most of its revenues in November and December. In September or October, it may run short of cash to pay bills. The toy business needs a loan to pay bills until it starts getting its November-December revenues. Banks are often sources for such loans.

In other cases, a company needs to build a new building. The new building will help the company grow, sell more products, and earn more profits. A new building is very expensive. The business decides to borrow money to pay for the new building. A loan to pay for a new building is called a *mortgage*. Banks and mortgage companies provide mortgages.

- **Investments.** Sometimes businesses have some money that they want to invest. They will consult with banks, financial analysts, and stockbrokers to make sound investment decisions. The business might then invest in stocks, bonds, or mutual funds.
- **Insurance.** Insurance is another form of financial service. You will learn more about insurance in the next chapter.



Reality Check

Do you have a savings or a checking account at a bank? How do you use it?

CHAPTER 30 REVIEW

Remember This

- An asset is something a business owns; a liability is something a business owes.
- Revenue equals price times number of items sold.
- The two main financial reports are the balance sheet and the income statement.
- A balance sheet is based on the following equation: assets equal liabilities plus net worth.
- Profit equals income minus expenses and costs.
- If costs stay the same, a higher price may result in higher profits.
- A budget estimates income and guides expenditures.
- Businesses use financial services such as deposits and checking, loans, investments, and insurance.

Review Concepts

1. List five examples of assets.
2. List two examples of liabilities.
3. State the equation for calculating revenue.
4. What is the difference between accounts receivable and accounts payable?
5. List three other terms for *revenue*.
6. What are the two basic types of expenses?
7. List six types of operating expenses.
8. List three terms used for the value of a company.

9. Give the equation on which the balance sheet is based.
10. What is the purpose of an income statement?
11. State the equation for calculating profit.
12. Businesses often discuss their bottom line. What does bottom line mean?

Think Critically

1. Why does a marketer need to know the basics of finance?
2. Why are assets and liabilities considered to be opposites?
3. In what way are revenues and expenses opposites?
4. How does a business use financial reports?
5. Compare and contrast an income statement and a balance sheet.
6. How do the prices charged for a product affect your business's profit?
7. What is the purpose of a budget?
8. Imagine that you are starting your own business. Which financial institutions or services might you use and why?

Connect to Business

1. If you work, ask your manager if you may see some financial statements for the business. (Some businesses may not be able or want to make such information available.) Ask the manager to explain to you how the business is doing.

2. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what kind of expenses the store or department has. Make as complete a list as you can of the products the business must purchase on a regular basis. If the information is available, find out how much the business spends on each product, per month or per year.
3. Visit a local bank. Find out what kinds of financial services the bank offers for businesses. Find out what the current interest rate is for a commercial loan.

Explore Careers

1. Financial managers are the employees who have responsibility for various financial activities in a business. You may not want to be a financial manager, but you may work with some during your career. To learn about careers in financial management, read the article "Financial Managers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What does a financial manager do? List the various job titles and a brief description of what each one does. What kind of training is required? If you were a marketer, how would the financial managers affect you? Check out the earnings. Why do you think financial managers are so highly paid?
2. Another important financial worker is the accountant. Read the article "Accountants and Auditors" in the *Occupational Outlook Handbook*. What are

the four major fields in accounting? In general, what do accountants do? What skills do accountants need? What is a CPA? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as an accountant. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

3. To learn about the workers who prepare and analyze budgets, read the article "Budget Analysts" in the *Occupational Outlook Handbook*. What does a budget analyst do? What are the training requirements? Search a job search Web site for jobs as a budget analyst. Browse through the available jobs. Choose one. What will the person in this job do? What are the requirements? Would you like this job? Explain why or why not.

Connect to the Internet

1. Use a search engine to find the annual reports of several large corporations. Use the name of the company and "annual report" as keywords. Find the net income for the most recent year. You may find this in a document called the "10-K." Compare the net incomes of these companies.
2. Find the Web sites of two banks. What information is available from these sites? What commercial banking services do they offer? Compare the offerings of the two banks. If you had a business, which bank would you use? Why?

Marketing Terms

risk
liability
lawsuit
risk assessment
insurance
security
surveillance
shoplifter
hazard
emergency
emergency action plan

After studying this chapter,
you will be able to

- categorize business risks.
- explain the impact of various risks on business activities.
- describe how businesses manage risk.
- list six ways to minimize risk.
- describe ways to reduce security risks.
- describe health, safety, and emergency procedures.

Running a profitable business is not easy. There are many risks. A **risk** is the possibility of loss, damage, or injury, 31-1. Imagine that you own a pet shop. A flood or tornado could destroy your shop. One of your puppies might have a deadly virus and spread it to all your puppies. The economy might go into recession, and no one buys pets. You might have bought a large number of ferrets, but no one buys them. Someone might trip on your doorstep and sue you. Someone might steal money from your cash register. Each one of these unfortunate occurrences will cost you money. Each one of these occurrences will take away some of your profits. Businesses have developed ways to manage risk.

Photo courtesy of FEMA, www.fema.gov

31-1

Flooding destroyed this man's business.



Reality Check

Think of a risk that people take in their normal day-to-day lives, for example, driving. In what ways is the activity risky? What do people do to minimize the risk?

Natural Risks

Many risks are due to events of nature. Tornadoes, hurricanes, floods, and earthquakes cause major disasters that can ruin businesses. For example, in 2004, four major hurricanes made landfall in Florida; these storms caused over \$17 billion in damage to both homes and businesses. Every geographic area has its own types of natural disasters.

Illnesses can also be considered natural risks. In a pet store, the illness of the puppies is considered a risk of nature. Businesses involved in agriculture and raising animals can suffer risks due to illnesses of their plants and animals. Outbreaks of bird flu and mad cow disease have led to the destruction of animals that were to be sold for profit.

Nature can be responsible for less dramatic but still serious business losses, 31-2. For example, each summer many cities hold large outdoor festivals. If the weather is rainy and cold, fewer people are likely to attend. As a result, revenues will be lower.



Reality Check

What kinds of weather and natural disasters occur in your area? How do they affect business?

Economic and Political Risks

Local, national, and world economic conditions can affect the success of a business. During times of recession, many people lose their jobs. As a result, many people stop spending on extras and luxuries.

Political conditions in a country can pose risks to business. Many American companies are looking to expand their businesses overseas. However, some countries are unstable politically. Other countries do not have formal trade relations with the

Types of Risks

Businesses can experience many kinds of risks. These risks can be organized into four categories: (1) natural, (2) economic and political, (3) market, and (4) human.

**31-2**

If the summer is cold and rainy, beach resort areas are likely to lose money because fewer people will vacation there.

United States. Starting a business in these countries can be very risky. There are also risks from civil disturbances. *Civil disturbance* is the term used for riots and acts of war. One might also include workplace violence and terrorist attacks in this category.

Remember what you learned in Chapter 11 about the role of government in the economy. Federal, state, and local governments can pass laws that affect how business is run. These laws should be taken into consideration when a business is started. Violation of such laws can result in financial penalties. In addition, government sometimes introduces new requirements or discovers new problems that pose a danger to consumers.

The Consumer Products Safety Commission, a federal agency, reviews reports of hazardous products. It works with companies to recall dangerous products. For example, in March 2004, the Consumer Product Safety Commission recalled the carbon monoxide alarms sold by GE Security Inc. These alarms failed to detect carbon

monoxide after one year of operation. About 74,000 of the alarms were made; they were sold for about \$49 each. The system installer or service provider replaced the defective alarms at no cost to the customer.

Market Risks

The market for many goods, services, and ideas is very unpredictable. Introducing a new product is especially risky. Will customers be willing to buy it? Will they be happy with it? Research shows that most new products fail in their first year on the market.

There are many famous examples of new products that did not sell. Many of them cost a great deal of money to develop, produce, and market. One example is New Coke. When New Coke was introduced, many customers rejected it and began demanding the old Coke. Within less than three months of its introduction, the Coca-Cola Company pulled New Coke and reintroduced Classic Coke.

Just because your product is currently successful does not mean that it will always be successful. Another market risk is competition. Competitors might enter your market with an improved product or a new, better product. Customers might prefer the competition's products. As a result, you might lose business and earn less revenue.

A related market risk is product obsolescence. *Product obsolescence* means that over time, the product becomes out-of-date. Product obsolescence is a major problem in fashion and technology businesses, 31-3. Many types of clothing go out of style very quickly. People often do not want to buy last year's fashions. In technology, the newer,

faster products make the older ones obsolete. This obsolescence is particularly obvious in technology-based products, such as cell phones and computers.



Reality Check

Have you ever had a product that became obsolete? Describe the product. In what ways did it become out-of-date?

Human Risks

Many risks in business are caused by people. The possibility of accidents and crimes are a significant risk for most businesses. When accidents and crimes occur, a related risk is being sued. Lawsuits can be expensive and time consuming.

Another major area of human risk is employee behavior and performance. Employees have access to a business's products, money, inventory, and trade secrets. Dishonest employees may steal goods and money. A recent National Retail Security Survey shows that employee theft is larger than customer theft. Dishonest employees may also give away your trade secrets to the competition. Both actions can seriously harm your business.

A business also relies on the performance of its employees for its success. Employees who do not do their jobs properly can cost a business a great deal of money. For example, cooks in restaurants must know how to safely handle food because it is very easy for food to get contaminated. If customers eat contaminated food, they are likely to get sick. The customers who get sick may sue the restaurant. In addition, news of the foodborne illness will get into the media. People may stop going to the restaurant. Many restaurants have gone out of business after an incident of food poisoning. Restaurant owners rely on the knowledge



31-3

Technology products are very likely to go out-of-date. As soon as a new technology is developed, the old product is no longer purchased.

and proper performance of all their employees to make sure that no customers get sick.

Liability

In Chapter 30, you learned that a liability is a debt. In the context of finances, liability does mean debt, that is, the amount of money that a business owes to others. In the context of risks, liability has another meaning.

Think of the risks discussed in this chapter. Who will pay for the damage caused by the hurricane? Who will pay for the medical care of an injured person? Who is liable for the damages and injury? The word *liable* means *responsible*. In the context of damages and responsibility, **liability** means responsibility for actions and costs.

Most countries have laws about liability. Liability laws are used to determine who is responsible for the costs of damages and injuries. A person, business, or organization that has been harmed can sue the person, business, or organization that may be liable. A **lawsuit** is the process of bringing a complaint to a court for resolution, 31-4. The purpose of a lawsuit is to have an impartial party (judge and/or jury) determine who is liable for the costs of the damage or injury. For example, the residents of Hinkley, California brought a liability suit against PG&E for contaminating their water supply with a cancer-causing chemical. This lawsuit was made famous by the film, *Erin Brockovich*.

Managing Risk

Many risks cannot be predicted or avoided. Managers have little control over earthquakes, hurricanes, illnesses, recessions, terrorist attacks, accidents, fires, and burglaries. What managers try to do is minimize the risks.



31-4

If a business or its products cause harm, a lawsuit is a possibility. The purpose of the lawsuit is to determine who is liable for the damages and injuries. The liable party pays for the damages and injuries.

First, managers assess the risks. **Risk assessment** is the process of analyzing a business for possible risks. Risk assessment should be done when a business is being planned, before it even opens. Risk assessments should then be done on a regular basis because the risks may change over time.

Risk assessment includes listing the possible risks and the possible damages. Then managers determine ways to reduce

the occurrences of the risky situations and to reduce the damage and financial loss from risks. Ways to minimize risks include (1) insurance, (2) building codes, (3) marketing research, (4) security, (5) health and safety procedures, and (6) emergency procedures.



Reality Check

List things that you do every day to minimize risk.

Insurance

Insurance is a financial service used to protect individuals and businesses against financial loss. The details of this financial service are recorded in a document called an *insurance policy*. The cost of an insurance policy is a payment called a *premium*. In exchange for the premium, the insurance company agrees to pay the costs in case of a specific list of damages. The cost of insurance depends on how likely the buyer is to use the insurance. When the possibility of using insurance is high, the premium is usually more expensive.

For example, suppose you buy a car. You are required by law in most states to also buy auto insurance. You pay a premium for your auto insurance. In exchange, the insurance company will pay the damages if you crash into another car. However, after an accident, your insurance premium is likely to go up.

For a business, there are three basic types of insurance: property, liability, and crime. *Property insurance* pays for loss or damage of property owned by the business, 31-5. Property insurance usually covers losses due to fires, tornadoes, hail, accidents, burglary, and arson. For example, if a restaurant suffers a fire, the insurance company will pay the cost of repairs or replacement of the building and equipment lost in the fire.

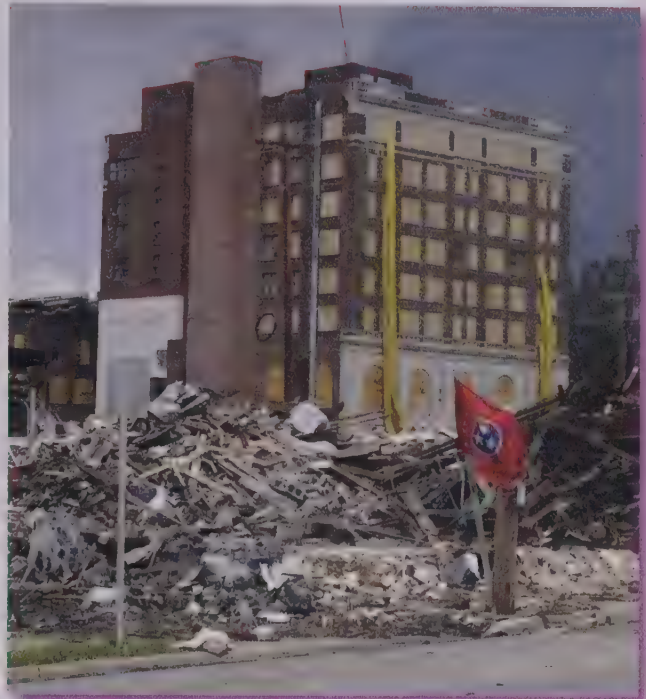


Photo courtesy of FEMA, www.fema.gov

31-5

A tornado destroyed the buildings in this business district. Property insurance is the type of insurance that usually pays for damage to property due to fire and weather-related damage. However, insurance policies vary on what they cover. Some policies do not cover tornado damage.

(However, before the insurance company will pay, it will make sure that all fire codes were up to date and were all being followed. It will also investigate for arson.)

Liability insurance provides payment if the business is sued, and the courts determine that the business is liable. Customers and employees might sue if they are injured at the business. Customers might sue if an item they purchase causes injury. If the courts determine that the business is liable, then the court will usually require the business to pay money to the victim. Liability insurance will cover the cost to pay the victim.

Crime insurance pays for losses due to crimes such as theft, arson, forgery, and

embezzlement. *Embezzlement* is a type of stealing that occurs when an employee takes either money or goods entrusted to him or her.

Building Codes

Weather and natural disasters cannot be avoided. However, home and businesses continue to be built in areas where hurricanes and other natural disasters occur periodically. To reduce damage from weather and other natural disasters, most cities and towns have building codes. A building code lists the standards that all buildings must meet to be safe. For example, most building codes require that foundations pass a stress test. Building codes in earthquake zones also have special requirements so that buildings will not collapse during an earthquake. Building inspectors inspect new buildings to make sure they meet the codes.

Most building codes also have extensive fire safety and prevention requirements. The fire codes are designed to ensure that the building is constructed to minimize the chance of fire and to slow down the spread of fire. The codes include requirements for fire alarms, sprinklers, fire extinguishers, and fire exits. In many areas, the local fire department regularly inspects buildings for fire safety.

Marketing Research

Business success depends on selling products. Which products will sell well? If a product is selling well now, will it continue to sell well? Businesses use marketing research to answer these questions. One of the purposes of marketing research is to prevent losses from marketing mistakes. The chapters in Part 3 describe the nature of markets. Chapter 20 describes methods of marketing research that help answer questions about the market and success of products.

Security

Many business losses are caused by people who steal, damage property, or harm employees and customers. **Security** consists of actions taken to prevent crime and to protect the safety of people and property.

Maintaining security is a complex task. Security activities can be organized into three categories: (1) structural security, (2) surveillance, and (3) security policies. *Structural security* consists of security features that are built into a building, 31-6. Examples include lights, alarms, locks, and computerized security systems.



31-6

Basic security features, such as lights, alarms, locks, and computerized security systems, should be built into the building.

Surveillance is the process of closely observing what is going on, in order to prevent crimes. Many businesses hire security guards to provide surveillance. Video and closed-circuit TV cameras are also used for surveillance.

Security policies are the rules that employees must follow to ensure security. There may be security policies for handling money, locking the building, and obtaining supplies. Keeping careful inventory records is also a security measure. Inventory records can show if items are missing. If items are missing, someone may have stolen them.



Reality Check

Where have you seen security officers? What were they protecting? How were they protecting it?

Security in Retail

Security is a major issue for retail stores. Retail stores are full of new merchandise. The cashiers handle large amounts of cash. Some stores may be short on sales associates, which means there is no one watching the merchandise. Even when stores hire security guards, the guards cannot be everywhere at once. As a result, retail stores are popular targets for theft. Retail stores are also places where people try to use counterfeit money, stolen credit cards, and forged checks. Unfortunately, serious and fatal crimes also occur in stores and their parking lots.

Many retailers take measures to reduce the chances of theft and other crimes. Many use video or closed-circuit TV cameras to provide better surveillance. Many hire security guards. Valuable merchandise is often displayed in locked display cases. Retailers may attach security tags to their merchandise, 31-7. Security tag detectors are then placed at the stores' exits, 31-8. When



Photo by Dominic Ierardi, Greater Lowell Technical High School

31-7

Security tags are attached to products to help prevent theft.



Photo by Dominic Ierardi, Greater Lowell Technical High School

31-8

If someone walks past these security gates with an item that has a security tag on it, an alarm will sound.

a customer buys an item, the security tag is removed, 31-9. If a person tries to walk out of the store without paying, the security tag on the item will set off the security tag detector and alarms.

Many retailers have detailed procedures for dealing with security problems. New employees are thoroughly trained in these procedures. Sales associates learn what to do during a robbery and how to recognize shoplifters. A **shoplifter** is a person, posing as a customer, who steals displayed goods from a store. Cashiers receive training on how to identify counterfeit. As you learned in Chapter 11, *counterfeit* is fake money made to look like real money. Cashiers also learn the proper techniques for accepting

checks and credit cards. E-tailing presents unique security problems. Several ways of dealing with them, such as encryption, were discussed in Chapter 29.

Retailers and many other businesses also have problems with employee theft. To prevent employee theft, most employers try to hire honest, reliable employees. Many employers also have strict policies regarding employee theft. Theft is usually grounds for immediate dismissal and possibly prosecution.

In order to reduce employee theft, employers use a variety of methods. One is to place video or closed-circuit TV cameras at cash registers. Another is to use the computerized accounting system to keep close track of cash register transactions. If there are any discrepancies, employee theft might be the cause. Similarly, employers use computerized inventory systems to keep close track of inventory. Any unexplained missing inventory might be due to employee theft.



Photo by Dominic Ierardi, Greater Lowell Technical High School

31-9

As part of the sales transaction, the sales associate removes the security tag.



Reality Check

Name at least two stores and describe one security measure you have seen in each.

Health and Safety Procedures

Health and safety procedures consist of actions taken to prevent illness and injury. Businesses are responsible for the health and safety of customers and employees while those people are on company property.

What harm could come to customers at your business? At a restaurant, customers could become ill from improperly prepared food or from an allergic reaction. In a store, merchandise could fall on customers and injure them. If the floor is wet, a customer might slip and fall.

Local government regulations require every foodservice business to meet specific health and sanitation standards. Successful foodservice businesses have detailed procedures to make sure the regulations are followed and that all food served is safe.

In addition, most businesses have procedures to try to make sure there are no hazards. A **hazard** is a situation that could result in injury or damage. Here are some examples. Water on the floor is a hazard that might cause someone to slip and fall. A frayed electrical cord is a hazard that might cause a fire. In an office, a metal file drawer that is left open is a hazard because someone could bump into it and get injured, 31-10. A tall stack of boxes is a hazard because the boxes could fall on someone and injure them.

Most businesses have rules for office, warehouse, and store accident prevention. Here are some examples. If floors become wet, signs are posted to warn that floors may be slippery. In a hotel, room attendants examine all electrical cords to make sure that none are frayed. In an office, file drawers must be closed when not in use. In a retail store, merchandise must be displayed in a safe way.



31-10

Most marketing jobs are in offices, which are generally very safe. However, health and safety procedures must be followed because hazards and accidents can happen anywhere.

Businesses are also responsible for the health and safety of their employees. According to the U.S. Centers for Disease Control and Prevention, injuries at work cost employers at least \$240 billion in 1999. Keeping workers safe is ethically responsible as well as economically sound.

To encourage employers to make the workplace safe, the Occupational Safety and Health Act was passed in 1970. This act requires employers to make the workplace free of hazards that might cause injury or death to employees. The act also established the Occupational Safety and Health Administration (OSHA). OSHA develops job safety and health standards; it then enforces those standards through inspections, 31-11. OSHA has developed standards for a number of workplace hazards. Examples of hazards covered include electrical hazards, fall hazards, fire and explosion hazards, infectious diseases, machine hazards, and toxic substances.

OSHA also provides training programs and works with employers to help them develop safe workplaces. If an emergency occurs, employers and employees can call OSHA's toll-free number for help.

Prevention Programs

Every business should have a strong accident prevention program to protect the health and safety of customers and employees. A good accident prevention program has three parts: (1) rules and policies, (2) safety training, and (3) safety inspections.

- **Rules and Policies.** Managers must make sure that OSHA requirements, building codes, and other safety regulations are followed. Many businesses have written rules and policies for safety and accident prevention. Businesses often establish a safety committee to develop and review these rules and policies. Safety committees should include employees

You Have a Right to a Safe and Healthful Workplace. IT'S THE LAW!

- You have the right to notify your employer or OSHA about workplace hazards. You may ask OSHA to keep your name confidential
- You have the right to request an OSHA inspection if you believe that there are unsafe and unhealthful conditions in your workplace. You or your representative may participate in the inspection
- You can file a complaint with OSHA within 30 days of discrimination by your employer for making safety and health complaints or for exercising your rights under the *OSH Act*
- You have a right to see OSHA citations issued to your employer. Your employer must post the citations at or near the place of the alleged violation
- Your employer must correct workplace hazards by the date indicated on the citation and must certify that these hazards have been reduced or eliminated.
- You have the right to copies of your medical records or records of your exposure to toxic and harmful substances or conditions
- Your employer must post this notice in your workplace



The *Occupational Safety and Health Act of 1970 (OSH Act)*, P.L. 91-596, assures safe and healthful working conditions for working men and women throughout the Nation. The Occupational Safety and Health Administration, in the U.S. Department of Labor, has the primary responsibility for administering the *OSH Act*. The rights listed here may vary depending on the particular circumstances. To file a complaint, report an emergency, or seek OSHA advice, assistance, or products, call 1-800-321-OSHA or your nearest OSHA office: • Atlanta (404) 562-2300 • Boston (617) 565-9860 • Chicago (312) 353-2220 • Dallas (214) 767-4731 • Denver (303) 844-1600 • Kansas City (816) 426-5861 • New York (212) 337-2378 • Philadelphia (215) 861-4900 • San Francisco (415) 975-4310 • Seattle (206) 553-5930. Teletypewriter (TTY) number is 1-877-889-5627. To file a complaint online or obtain more information on OSHA federal and state programs, visit OSHA's website at www.osha.gov. If your workplace is in a state operating under an OSHA-approved plan, your employer must post the required state equivalent of this poster

1-800-321-OSHA www.osha.gov

U.S. Department of Labor • Occupational Safety and Health Administration • OSHA 3165

OSHA, the Occupational Safety and Health Administration, is the federal agency that develops job safety and health standards, and then enforces them.

from all areas of the business. The safety committee can also develop safety training programs and safety inspection programs.

- **Safety Training.** Safety training should cover three areas: general safety rules, specific job-related safety rules, and safety attitude. General safety rules apply to everyone in the business. Sample topics include hazards to notice and report, safe lifting, and emergency procedures. Specific job-related safety training should be tailored to each specific job. For example, warehouse workers need special training in the equipment they use to move heavy loads. Sales associates need special training to handle customers who might endanger employees and other customers. Attitude is the last but not the least important area. A positive attitude toward safety must be promoted. Employees should be made aware of how important safety is to their well-being and their employment.
- **Safety Inspections.** Businesses must monitor their employees, business procedures, and buildings to make sure that safety requirements are being followed. Most businesses have specific workers whose responsibilities include safety inspections. In addition, outside inspectors might make regular or surprise inspections. Outside inspectors are usually from the fire department, public health department, or state and federal OSHA.



Reality Check

Have you ever worked for or been a part of an organization that had health and safety rules and policies? Give examples of some of the rules and the reasons for them.

Emergency Procedures

Emergencies can occur at any time and in any place. Even businesses with excellent accident prevention plans have emergencies. An **emergency** is an unforeseen event that can cause harm to people and property. A *minor emergency* does not require the help of professionals and is not life threatening. For example, small cuts are minor emergencies. They require quick response, but everyone can be trained to handle them. One of the goals of training is to help employees keep minor emergencies from becoming major emergencies. Employees must also know when and how to call for help. In many companies, employees must report any accident, large or small, to their supervisors.

A *major emergency* requires professional help or is life threatening. Situations causing major emergencies include fires, natural disasters, major illnesses, industrial accidents, and civil disturbances. OSHA requires most businesses to have emergency action plans. An **emergency action plan** is a detailed plan that describes what to do in case of an emergency. Emergency action plans are also called *emergency response plans*. The plans describe what to do in case of fires and disasters. A major part of an emergency action plan is an evacuation plan.

Every emergency is unique, but there are general procedures that are usually followed, 31-12. During any emergency, quick but calm action is necessary. All employees should be familiar with the emergency and evacuation plans. Training sessions and practice drills should be carried out so that employees know what they are supposed to do. One person should be designated as the emergency coordinator, that is, the person in charge with the authority to make decisions. Other employees should be assigned specific tasks and be trained to perform them. For example, certain employees should be

General Emergency Procedures

1. Assess the situation.
2. Notify your direct supervisor.
3. Remain calm.
4. Follow recommended procedures for handling the emergency. For example, use a fire extinguisher on a fire or administer first aid if you are qualified.
5. If told to evacuate, follow the evacuation procedures.
6. Walk. Do not run. Do not use elevators during a fire.
7. Know procedures for helping customers evacuate.
8. Meet at an emergency meeting place.
9. The manager in charge will call the roll to make sure all employees are accounted for.
10. Do not return to the building until authorized officials tell you that it is safe.

designated as evacuation wardens to help employees and customers evacuate the building. Other employees should receive special training in first aid.



Reality Check

Have you ever been caught in an emergency? What happened? What did you and the others around you do?

31-12

Every emergency is unique, but there are general procedures that are usually followed.

CHAPTER 31 REVIEW

Remember This

- Risks can cost businesses money and result in less profit.
- There are four categories of business risk: (1) natural, (2) economic and political, (3) market, and (4) human.
- Businesses manage risks by analyzing the business for risks and then determining ways to reduce the risks.
- Ways to minimize risks include (1) building codes, (2) insurance, (3) marketing research, (4) security, (5) health and safety procedures, and (6) emergency procedures.
- Security risks can be minimized by (1) structural security, (2) surveillance, and (3) security policies.
- Health and safety procedures include establishing rules and policies, safety training, and safety inspections.

Review Concepts

1. Why should a business be concerned about risks?
2. Give examples of three different types of natural risks that can affect a business.
3. Give three examples of economic or political conditions that could affect a business.
4. What are the risks associated with a new product?
5. List five risks to businesses that result from the actions of people.
6. What is the difference between liability in the context of finances and liability in the context of risks?
7. Why should a business perform risk assessment before the business even opens?
8. List six ways to minimize risks.
9. List three types of business insurance.
10. Why is security so important in retail?
11. What does OSHA do?
12. List the three parts in a good accident prevention program.
13. What is the difference between a minor emergency and a major emergency?
14. List the ten procedures usually followed in any emergency.

Think Critically

1. For each of the four types of risks, give an example of how it could harm a business.
2. For each of the examples in answer #1, explain a way that the risk could have been minimized.
3. Imagine that you own a small retail store. Which of the four types of risks would be the most difficult to handle? Give examples to support your answer.
4. Imagine that you are planning to open a retail store in a mall. What security measures would you take?
5. Imagine that you are the manager of a small restaurant. What rules or policies should you have to prevent accidents?
6. What is a good attitude toward safety and why is it important?
7. What is the difference between health and safety procedures and an emergency plan?

CHAPTER 31 REVIEW

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what kinds of risks create the most problems for the business. Find out how the business manages those risks.
2. Visit a shopping mall or a large store. Make a list of all the safety and security measures that you see. Include things like fire extinguishers as well as security guards. Look also at the merchandise. How has the merchandise been secured against theft?
3. Talk with the manager at your workstation or the owner or manager of a local business or store department. Does the business have an emergency action plan? If there is a plan, write a summary of what the plan includes. Ask the manager if the plan has ever been used. Find out what the situation was and how the plan worked.

Explore Careers

1. Learn about the insurance industry by reading the article "Insurance" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. For further information, read the articles on "Insurance Underwriters" and "Claims Adjusters, Appraisers, Examiners, and Investigators." Additional information on the insurance industry is available from the Web site of the Insurance Information Institute (www.iii.org). Choose an insurance job title that appeals to you. What does a person in that job do? What are the training or educational requirements? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for the job title. Browse the job openings, and then choose one that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Learn about the security occupations by reading the article about security guards in the *Occupational Outlook Handbook*. What does a person in that job do? What are the training or educational requirements? Security is also called *asset protection* or *loss prevention*. Visit the Web site of a major retail store chain, such as Target (www.target.com). Click on the "Careers" link. Target has a link "Career Areas," which has a further link for "Asset Protection/Loss Prevention." Describe the careers available in this area. Find a job opening. Would you like this job? Explain why or why not.
3. Emergency medical technicians (EMTs) and paramedics are a critical part of any emergency plan. Read the article "Emergency Medical Technicians and Paramedics" in the *Occupational Outlook Handbook*. What do EMTs do? What kind of training do they need? What kind of certification does your state require? Would you like to be an EMT or paramedic? Explain why or why not.

Connect to the Internet

1. Imagine that you are a business owner. Name the type of business. Suppose you need insurance. Use a search engine to find appropriate insurance for your business. Use the keywords "business insurance" or "commercial insurance." Write up your insurance plan and how much it will cost you.
2. Research the natural disasters in your state. What kinds are most likely? Make a list of the most severe and how much damage they caused.
3. Visit the Web site of your county or community. Do they have an emergency action plan? Possible keywords or links to look for include "Department of Public Safety," "Emergency Services," and "Emergency Plan." Describe the emergency services available in your community. Does your community have an outdoor warning siren? See if the Web site describes them and provides audio of what they sound like.
4. The Federal Emergency Management Agency (FEMA) is the agency of the U.S. government that provides help in times of emergency. Visit the FEMA Web site, www.fema.gov. Make a list of the areas of the country currently receiving emergency aid from FEMA. Describe the nature of the emergency and the aid each area is receiving.

Marketing Terms

list price

market price

MSRP

price-fixing

price discrimination

elastic demand

marginal utility

law of diminishing marginal utility

inelastic demand

After studying this chapter,
you will be able to

- explain the concept of price.
- identify nine factors that affect pricing.
- explain how expenses can affect profits.
- give examples of price and nonprice competition.
- explain why there are laws that regulate pricing.
- explain how supply and demand affect price.

Have you bought any products recently? How much did you pay for them? The amount of money you paid for a product is its price. You might pay \$1.25 for a beverage, \$16.99 for a CD, or \$65 for a concert ticket. Each of those dollar amounts is the price of the product, 32-1.



Reality Check

Name a product that you have bought. What was its price?

Types of Prices

Price is one of the Four Ps of the marketing mix, 32-2. As you learned in Chapter 1, price is the amount of money requested or exchanged for a product.



32-1

How much will she pay for that blouse? Price is the amount of money requested or exchanged for a product. The price is usually stated on a price tag.

Marketers use price to establish and communicate the value of products.

Marketers need to be aware of the value that customers place on their products. Individual customers may place a different value on the same product. You might think that a friend is crazy for paying \$75 for a pair of shoes, yet you might not think anything of paying \$75 for a concert ticket. What you value is different from what your friend values, and the price you are willing to pay for the same products also varies.

There are several types of prices. The **list price** of a product is the established



32-2

Price is part of the marketing mix.

price of a product, as published (listed) in a catalog, on a price tag, or in a price list. The list price does not include any discounts. The **market price** is the actual price you pay for a product, after any discounts or coupons are deducted. Suppose you go shopping for a backpack. You find a backpack with a price tag that reads \$50. You have a \$10 off coupon, so you actually pay only \$40 for the backpack. The list price is \$50. The market price is \$40. If there are no discounts or coupons, the market price is the list price.

Another type of price is the MSRP.

MSRP stands for *manufacturer's suggested retail price*. This is the price that the manufacturer recommends. Retailers do not have to use the MSRP. Some retailers use the MSRP as the list price.

While price is often considered the dollar amount listed on a price tag, there are many other terms used for price. The *tip* paid to a server at a restaurant is part of the price of a meal. The *tuition* paid for school is the price of the schooling. *Admission* is the price paid for entrance to amusement parks and

movie theaters. A *donation* is the price for attending a charitable event. The price for a loan is called *interest*. The price for seeing a doctor or lawyer is called a *fee*. The price of an airline ticket is called a *fare*, 32-3



Reality Check

Name at least one other term used for the price of something and describe the product for which it is the price.

Factors That Affect Price

Many factors affect the price of a product. The following nine factors can affect price: (1) company goals, (2) expenses, (3) other marketing mix variables, (4) customer response, (5) competition, (6) economic conditions, (7) government regulations, (8) product life cycle, and (9) supply and demand.



32-3

A subway fare is the price of a ride on a subway.

Company Goals

Marketers must set prices that are consistent with their company's overall goals. The image that a company projects is in part determined by the prices they charge. For example, some companies want to project an image of a great bargain for the money. These companies would try to price their products as low as possible, 32-4. This goal would also influence the materials chosen to make the products; the least expensive materials would be chosen.

Other companies want to project an image of luxury. These companies may want



32-4

A flea market has an image of bargains and cheap prices.

to charge higher prices. This goal might influence the materials chosen to make the products; materials of higher quality and cost might be chosen.

The company's goals may vary with the specific products. For example, a retailer may have a large number of goods that did not sell well. The retailer might lower the price of these goods so that they would sell better.

The amount of profit a company wants to make also affects pricing. You will learn more about company goals and pricing in the next chapter.

Expenses and Costs

Expenses and costs have a major influence on price. In most situations, the price of the product has to at least cover the cost of goods and the operating expenses. For manufacturers, price has to cover the cost of manufacturing the goods and marketing them. For retailers, the price has to cover the cost of buying the goods and marketing them.

Here is a very simple example. Suppose you are a retailer. You want to sell stuffed animals that cost your company \$5.00 each to buy, 32-5. You calculate that your expenses to market each stuffed animal are \$2.00 each. You would have to charge a price of at least \$7.00 for each animal to cover the costs and expenses of buying and marketing each one. In addition, most businesses want to make a profit. Therefore, the business might add \$0.99 to the price for profit, for a total price of \$7.99.

Effect of Expenses and Costs on Profits

In Chapter 30, you learned about the effect of price on profits. Now consider the effect of expenses and costs on profits. Remember the formula for profit:

$$\text{Profit} = \text{Income} - \text{Expenses and Costs}$$



32-5

When a retailer decides on a price, the price should cover the costs and expenses and include some profit.

Profits depend on revenue (income) and expenses. For this discussion, assume that you do not want to change the price of your product; therefore, you cannot change your income. However, you want to make more profit. The only possibility you have is to reduce expenses or costs.

How does reducing expenses affect profit? Think back to the cookie example in Chapter 30. That company sells one product, a box of cookies. Due to circumstances, you must sell the boxes for \$1.50 each. You plan to make and sell 1,000 boxes. You know from past records that your costs and expenses for 1,000 boxes are usually \$500.

Since you want to increase profits, you research ways to reduce your costs. You find a supplier who will sell you chocolate chips at a good discount. You reduce your costs to \$450, and your profits increase by \$50. You then find a box supplier who will give you a good discount on boxes. You now reduce your costs to \$400, and your profits increase by \$100. However, a company cannot keep lowering costs without affecting quality.

A company may temporarily lower a price to near, at, or below cost to meet a

competitor's price or to increase market share. (In some states, it is illegal to sell products at a price below cost.) However, a company cannot constantly price at or below cost, because then there would be no profit. A business is likely to go out of business unless they make a profit. Most companies today are looking for ways to maintain quality and keep stable prices while maintaining profits. They are achieving this goal by reducing expenses. For example, Southwest Airlines has been one of the airlines to offer low fares, while still making a profit. It manages to keep prices low and maintain profits by developing innovative ways to reduce expenses.

Other Marketing Mix Variables

As you have learned, decisions made for the marketing mix variables influence each other. Pricing decisions influence the decisions made about product, place, and promotion. Decisions made about product, place, and promotion affect pricing decisions. Product, place, and promotion decisions are usually difficult to change. Prices can easily and quickly be changed to meet competitive challenges and economic changes. As a result, prices are more likely to change than any of the other Ps.

Product decisions can be influenced by price decisions, particularly in the area of materials used in the product, 32-6. For example, sweatshirts can be made from 9-ounce fabric or 11-ounce fabric. The 11-ounce fabric is heavier and more expensive to produce. If plans are to produce a lower-priced sweatshirt, then the 9-ounce fabric could be used.

Place, including distribution, decisions are also affected by pricing decisions. If your products are low-priced, you will want to find a low-cost method of shipping them. For example, if you sell a product over the Internet for \$4.99, it would not make sense to



32-6

Product decisions affect price. If heavier and more expensive material is chosen for this sweatshirt, the price will have to be higher to cover costs.

charge an additional \$6.00 for shipping. On the other hand, if you sell a \$10,000 diamond to a customer overseas, you would most likely ship it by plane. The extra expense of airfreight would be worth it to get the diamond quickly and safely to the customer.

Customer Response

Price is often used by customers to determine the worth or quality of a product. Have you ever wondered what was wrong with a product because the price was so low? If you said yes, then you used price to determine the quality of a product. Sometimes customers interpret a higher price to mean a better-quality product.

On the other hand, products can be priced too high. When the price of a product is too high, customers may not buy it. They will think that the product is not worth the money. In this situation, the marketer can lower the price and see if customers will then buy the product.



Reality Check

Have you ever questioned the quality of a product because of its low price? Describe the product and its price. Why did the low price make you think that the product was of poor quality?

Competition

Businesses should always be aware of their competitors' prices, 32-7. Your competitors' prices can be a factor in the prices that you set for your products. You might decide to match prices, have lower prices, or higher prices than your competitors'. You also need to monitor competitors' prices because they may change. If a competitor suddenly lowers prices, that could mean trouble for your business if you do not respond in some way.

As you learned in Chapter 19, there are two major bases for competition:

- **Price Competition.** Price competition occurs when a marketer emphasizes low price in order to attract customers.



A business should always be aware of its competitors' prices and the other ways the competitors are trying to win customers.

Some industries are more prone to price competition, for example the airline industry, the oil industry, and the fast-food industry. Companies that compete based on price often change their prices frequently. Usually, when one seller lowers prices, other competitors are quick to lower their prices.

- **Nonprice Competition.** Nonprice competition emphasizes marketing factors other than price in order to distinguish products. Product features such as quality, brand name, customer service, uniqueness, and reputation are emphasized. Nonprice competition is often used to build brand loyalty. If you prefer a brand, you are not easily influenced by a lower price to buy another brand. Jaguar, Mercedes, Lexus, and BMW do not compete based on price. Their promotion emphasizes features such as leather seats, seat heaters, and on-board tracking systems. Another example is if you always buy Tommy Hilfiger jeans, you probably would not buy a different brand of jeans because the price was lower. Competitors who compete based on nonprice factors must still take into consideration competitors' prices.



Reality Check

Name one business that uses price and one that uses nonprice factors to compete. Explain your examples.

Economic Conditions

Economic conditions change frequently. One day the economy seems stable, the next day the stock market might fall and the economy take a turn for the worse. You learned about business cycles in Chapter 10. Business cycles affect the prices of many

products. Prices tend to rise during good economic times (expansion). Part of the reason for this is that during expansion, most people are employed and have money to spend. Demand for products generally goes up during expansions. When demand rises, usually prices also rise.

Prices tend to fall during bad economic times (recession), 32-8. Part of the reason for this is that during recessions, people lose jobs and have less money to spend. Demand for products generally goes down during recessions. When demand falls, usually prices also fall.

However, business cycles tend to affect different products differently. For example, the prices of luxury items tend to stay the same regardless of the phase of the business cycle. The reason for this is that business cycles have less impact on the wealthy, and so they have the money to spend on luxuries even during economic downturns.

Government Regulations

There are state and federal laws that regulate pricing. There are two main purposes for government regulations of



32-8

During economic bad times (recessions), demand tends to fall and prices tend to fall. Sometimes, the business also fails.

pricing: (1) to prevent monopolies and (2) to promote fair competition.

As you learned in Chapter 19, monopolies interfere with the workings of a market economy. A monopoly controls the market for a single product and can set whatever price it wants. As a result, a monopoly usually sets unfairly high prices.

Competing companies can also interfere with fair competition. One way is called price-fixing. **Price-fixing** is a situation in which a group of competitors gets together and sets (fixes) the price for a specific product; they then all agree to sell that product for the same price. Price-fixing can occur between retailers and customers and between members of the supply chain. There have been many price-fixing cases. One famous price-fixing case among supply chain members was a worldwide scheme to fix the price of lysine, a chemical added to animal feed. In 1999, the Archer Daniels Midland Company was fined \$100 million for its role in the price-fixing of lysine, and three of its top executives were jailed for two years and fined \$350,000 each. They were found to be in violation of the federal antitrust laws.

Another practice that interferes with competition is to set drastically low prices, sometimes below cost. A goal of these low prices might be to drive competing businesses out of business because the competing business cannot go as low on prices.

Another practice that interferes with competition is price discrimination. **Price discrimination** is a situation in which a company plays favorites by charging lower prices to some companies for the same products. Figure 32-9 lists the major laws that regulate pricing.

Product Life Cycle

The pricing of a product is often influenced by its stage in the product life cycle. Sometimes, when a new product is

introduced, the price is very high. The price is high so that the manufacturer can recover some of the costs of developing the new product. Often, only one company is making the new product, so many customers are willing to pay high prices for exciting new products. Other times, new products are introduced at very low prices to get people to try the product.

During the growth phase, many competitors enter the market, and the price of a high-priced new product usually falls. This is especially true for technology products, such as computers, personal digital assistants, and cell phones, 32-10.

During the maturity and decline phases of a product, prices are usually lowered. The lower prices helps a declining product get more sales.

Supply and Demand

In Chapter 8, you learned about supply and demand. Price affects supply and demand. When prices are high, suppliers are willing to supply more of the product. High prices lead to higher supply. On the other hand, when prices are high, demand tends to fall. When prices are low, suppliers are not willing to supply more of the product. Low prices lead to low supply. On the other hand, when prices are low, demand tends to rise. Marketers often lower the prices of products to get consumers to buy products that are not selling well.

Supply and demand affect price. When demand is high and the supply is low, marketers usually raise prices. Customers are willing to pay higher prices for products they really want. When demand is low and supply is high, marketers usually cut prices. Customers are willing to buy more of a product when the price is low.

The demand for many products varies with the price. Higher prices tend to lower the demand. Lower prices tend to raise the demand. However, for some products,

Laws That Regulate Pricing

Law	What It Regulates	When It Might Be Used
Sherman Antitrust Act (1890)	Regulates price-fixing	If the gasoline stations in your town all agree to charge the same price for gasoline.
Clayton Antitrust Act (1914)	Makes price discrimination illegal	Your school store ordered 100 widgets from a company and was charged \$4.00 a widget. The school store manager finds out that another store ordered 100 widgets from the same company and was charged \$3.50 a widget.
Robinson-Patman Act (1936)	Strengthened the Clayton Act by specifically prohibiting a seller from charging different prices to different customers for the same product and same quantity	To help small retailers compete against large chains. The same types of discounts, financing, etc. have to be offered to both large and small retailers.
Wheeler Lea Act (1938)	Prohibits deceptive advertising of prices. Companies cannot advertise that their prices are lower unless they can prove it; they cannot advertise lowered prices unless the original price was higher; and list prices cannot be used in reference to a sale price unless the product was actually sold at the list price.	You see a pair of shoes on sale for \$45.99; however, you were in the same store last week before the sale and they were \$45.99.
Unit Pricing Laws	These laws vary from state to state. Retailers must display pricing that shows the price of an item per unit. Most packaged items are priced per package, which makes it hard to compare the prices of certain items, particularly grocery items.	The price of a 32-ounce bottle of shampoo is \$5.99. A sign on the shelf should state that it costs 19 cents an ounce.
Minimum Price Laws	These laws vary from state to state. Retailers cannot sell a product for less than its cost.	A retailer buys running shoes from the manufacturer for \$20; it cannot resell them for less than \$20.

32-9

The federal government passed a number of laws to prevent monopolies and promote fair competition.

demand is not affected by price. *Demand elasticity* is the term for the degree to which demand changes based on price. The demand for some products is very elastic, that is, the demand changes with price. The

demand for some products is not very elastic; that is, demand does not change with price; demand for some products tends to remain constant.



32-10

When many competitors enter a market, the price usually falls.

Elastic Demand

Elastic demand is the term used for demand that changes with price. Think of a rubber band. A rubber band is elastic; its size changes with the amount of pressure applied. For many products, demand is elastic like a rubber band. The higher the price, the lower the demand. For example, when the price of your favorite treat rises too high your demand for it will drop. You will buy it less often or not at all. Treats, luxuries, and products that you do not really need tend to have elastic demand, 32-11.



32-11

Treats, luxuries, and items you do not really need tend to have elastic demand. If the price of your favorite treat rises too high, you are likely to buy it less often or not at all.

Products that have cheaper substitutes also tend to have elastic demand. For example, if the price of beef goes up, you can substitute chicken. The demand for beef is elastic.

Similarly, for products with elastic demand, the lower the price the higher the demand. In other words, as the price of the product falls, consumers will buy more of the product. For example, if the price of your favorite treat goes down, you will buy more of it. If the price of beef goes down, you will buy more beef. However, there will come a point at which no matter how low the price, you will not buy any more. For example, suppose there is a sale on beef. You buy as much as you can fit in your freezer. Even if the price goes lower, you will not buy any more because you cannot use any more. This situation is an example of the law of diminishing marginal utility.

When you use a product, you gain *utility*, that is, satisfaction from using the product. **Marginal utility** is the additional satisfaction you get when you use an additional unit of the same product. For example, when you eat a doughnut, you get satisfaction (utility).

When you eat a second doughnut, you get some more satisfaction, though usually not as much satisfaction as you got from the first doughnut. The additional satisfaction from the second doughnut is its **marginal utility** (added satisfaction). After you have eaten many doughnuts, each additional doughnut gives you little or no added satisfaction. In other words, as you eat more doughnuts the marginal utility of each doughnut decreases. The **law of diminishing marginal utility** says that as a consumer consumes more units of the same product, the marginal utility from each unit goes down.

The law of diminishing marginal utility explains why a marketer can only lower prices to a certain point to increase sales. At a certain point, consumers do not need or want or cannot use additional units of the product. At this point, lower prices will not increase sales.

Inelastic Demand

Inelastic demand is the term used for demand that is not affected by price. Think of a steel ring. A steel ring is inelastic; its size does not change, no matter how hard you squeeze it. The demand for certain products does not drop when the price rises. Basic food products have inelastic demand, such as milk and bread, 32-12. Medicines tend to have inelastic demand. For example, suppose you have the illness diabetes. You must have the drug insulin to stay healthy. Will your demand for insulin change if the price rises? No, you will figure out a way to afford the higher price because without the insulin, you would become very ill or might die.

Some products have both elastic and inelastic demand, depending on the situation. For example, suppose you drive a car to school every day. Suppose the price of gasoline doubles. You are likely to decrease your demand for gasoline by bicycling to school most days or carpooling. In this



32-12

Basic foods, such as milk and bread, have inelastic demand. People tend to buy them, even when the price rises.

case, your demand for gasoline is elastic. However, suppose that you are driving on a limited-access highway. You notice that your fuel gauge is on empty. You pull into the only gas station for the next 100 miles. The price of gas at this station is double what you usually pay. Will your demand change? No, you must have gas in order to complete your journey. You will pay the extra price. In this case, the demand for gasoline is inelastic.

Brand loyalty also can create inelastic demand. For example, you may like only one brand of shampoo. Your demand for that shampoo is inelastic because you will not buy another brand, even if it is cheaper.



Reality Check

Name one product that has elastic demand and one product that has inelastic demand. Explain your examples. Do others agree with you?

Southwest Airlines Still Profitable After All These Years

Which airline does not assign seats? On which airline are the flight attendants likely to burst out in song? Over the past decade, many airlines have filed for bankruptcy. Which airline has not? Which airline has also made a profit for 31 consecutive years, as of 2003? Which airline has also been on the "World's Safest Airlines" list for a number of years? Which airline has never laid off employees due to business conditions? If you guessed Southwest Airlines, then you are right!

How It All Began

Southwest Airlines was the brainchild of Texas businessman Rollin King. He imagined an airline that could fly cheaply over short distances. He contacted attorney Herb Kelleher, and together the two of them created Southwest Airlines. Kelleher became the executive chairman of the board and was president and CEO from 1981 to 2001.

In the beginning, Southwest was an intrastate airline, flying only within the state of Texas. By staying within the state, the airline did not have to charge prices mandated by the Civil Aeronautics Board. As a result, Southwest was able to charge very low fares and became a great success.

The airline began in 1971 with only four planes and 70 employees. Today, it has over 380 planes and 32,000 employees and flies across the country.

How Did They Do That?

Business analysts credit Herb Kelleher, and Herb Kelleher credits the employees. Yet it seems clear that Herb Kelleher created a business model that works.



Courtesy of Southwest Airlines

From the beginning, Kelleher focused on lowering costs as much as possible so that Southwest could charge the lowest fares. In many markets, Southwest offers fares that are as much as two-thirds lower than the competitions'.

Southwest uses only one type of aircraft, the Boeing 737. This saves money and time in terms of maintenance, training, staffing, and scheduling.

Southwest also has one of the fastest "turnaround" times, that is, the time it takes to land, deplane passengers, board passengers, and take off again. Contributing to the speed is the fact that passengers do not have assigned seats. When turnaround time is fast, each airplane can make more flights and generate more income.

It's All About Fun

Kelleher has also created a company culture that inspires commitment. His philosophy is to hire the best people, treat them with respect, and give them the freedom to make decisions and have fun. In fact, having fun is a major part of the corporate culture.

CHAPTER 32 REVIEW

Remember This

- Price is the amount of money requested or exchanged for a product.
- The factors that affect price include (1) company goals, (2) expenses, (3) other marketing mix variables, (4) customer response, (5) competition, (6) economic conditions, (7) government regulations, (8) product life cycle, and (9) supply and demand.
- Price affects and is affected by promotion, place, and product decisions.
- Reducing expenses and costs can increase profits.
- Nonprice competition is based on factors other than price, such as quality, brand name, customer service, uniqueness, and reputation.
- There are two main purposes of government laws regulating pricing: (1) to prevent monopolies and (2) to promote fair competition.
- When demand is high and the supply is low, marketers usually raise prices. When demand is low and supply is high, marketers usually cut prices.

Review Concepts

1. List three types of prices and explain the differences among them.
2. List at least six other terms used for price.
3. List the nine factors that affect price.
4. What effect do cost and expenses have on price?
5. Give an example of how price affects product decisions.
6. Give an example of how price affects place decisions.
7. What is the difference between price and nonprice competition?
8. Why has the U.S. government passed several laws that affect pricing?
9. How does the stage in the life cycle affect the pricing of a product?
10. How do supply and demand affect price?
11. Why is the demand for some products elastic, while the demand for other products is inelastic?

Think Critically

1. Imagine that you are a manufacturer setting the price for a new product. Which of the nine factors would affect your price decision the most? Explain your answer.
2. Suppose you, as a manufacturer, want to increase your profits. How would you do it?
3. Imagine that you are planning to open a retail store. Briefly describe your store. Then explain why you would choose to compete on the basis of price or nonprice. If you chose nonprice competition, explain which factors you will emphasize.
4. In a command economy, the government sets the prices of all the products. This is the opposite of a market economy, in which the government sues companies for fixing prices. When the command

economies of the twentieth century in Eastern Europe and the U.S.S.R. set prices, they were usually set too low rather than too high. What effect might that have on the economy?

5. Imagine that you own a retail store. Why might you want to set drastically low prices? Why do some states prohibit prices below cost?
6. Give a nonfood example of the law of diminishing marginal utility.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out whether the business competes on the basis of price or nonprice factors. Has the company ever experienced unfair competition? What is the demand elasticity for the company's products?
2. Observe several similar businesses in your community. Make a list of businesses that compete on the basis of price. Make a list of businesses that compete on a nonprice basis. For each of the nonprice businesses, indicate the basis on which they compete. To help you answer these questions, find advertisements for each of the businesses. Turn the ads and information into a poster.

Explore Careers

1. Cost and expenses are factors in price setting, and cost estimators analyze

factors that affect costs. Read the article "Cost Estimators" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Describe the job of a cost estimator. What kinds of training are required? Visit the Web site of The Association for Advancement of Cost Engineering International (AACE International) or the Society of Cost Estimating and Analysis (SCEA). On the AACE International Web site (www.aacei.org), click on the "Listings" link and then "Positions Offered (Job Openings)." On the SCEA site (www.sceaonline.net), click on the "Employment Advertisements" link. Browse through the available jobs. Choose one. What will the person in this job do? What are the requirements? Would you like this job? Explain why or why not.

2. Management analysts help businesses in a variety of areas, including inventory, logistics, efficiency, and price strategies. Read the article "Management Analysts" in the *Occupational Outlook Handbook*. Describe the job of a management analyst. What kinds of training are required? Employment is expected to grow faster than average. What reasons does the *Handbook* give for this? Visit the Web site of the Institute of Management Consultants USA (www.imcusa.org). Describe the certification process and requirements for the CMC (Certified Management Consultant). Review the Code of Ethics. Why is a Code of Ethics so important in this field? Find the results of IMC's most recent ethics survey to help you answer this question.

CHAPTER 32 REVIEW

Connect to the Internet

1. Imagine that you are running a company that is having some problems. You decide to consult a management consulting firm for help. Use the Internet to find management consulting firms that you might use. Make a list of firms and their advantages and disadvantages. Which one would you choose? Give your reasons for this choice.
2. Research Southwest Airlines. How does it keep costs low? How has Southwest affected the airline industry? Which other airlines have imitated it? What is the effect on the major airlines?
3. Visit the Web site of the Archer Daniels Midland Company (www.admworld.com). Is this a B2C company or a B2B company? What are its major product categories? What products that you use may have ingredients made by ADM? Why do you think there is an ethics link on the home page of this Web site? Browse the Web site. Describe the area of the Web site that you found most interesting. What did you learn? What kinds of careers are available with ADM? Have you seen any commercials or print ads for ADM? Why would ADM advertise to consumers?

Marketing Terms

pricing objectives
return on investment (ROI)
break-even point
psychological pricing
unit pricing
discount
discount pricing

After studying this chapter, you will be able to

- list five common objectives of pricing.
- describe the effect of price on revenue.
- determine the break-even point for a product with a given cost and selling price.
- calculate price.
- list five psychological pricing techniques.
- list five discount pricing techniques.

Think of the prices of some of the items you have purchased recently. Maybe you bought a box of ballpoint pens for \$1.48 or a video game for \$49.99. How did the marketers decide on these prices?

The price of a company's product plays a big part in determining whether the product and the company are successful. Companies need to decide on their pricing objectives. Once they have pricing objectives in mind, they can establish their pricing policies, 33-1.



Reality Check

Have you ever been responsible for setting the price for something? Describe the product and how you decided on a price.

Pricing Objectives

Most companies use prices to help achieve company goals. Companies have different pricing objectives, which affect



33-1

Service businesses must also set prices. This architect must determine prices, called fees, for his services.

their profit and final selling prices. **Pricing objectives** are the goals that tell what a marketer wants to achieve through pricing. Although some companies want to make the most profit possible on a product, there are actually many other pricing objectives. There are five common pricing objectives: (1) maximize profit, (2) maximize sales, (3) increase market share, (4) meet competition, and (5) return on investment.

Maximize Profit

This strategy consists of charging the highest price that customers will pay before they decide that the price far exceeds the value. The goal is to make as much money as quickly as possible. This strategy is often used when a product has a short life, for example, a toy that will be popular for only a short time. This strategy is also used when the company has a monopoly for a specific event, for example, popcorn and drinks at a movie theater, 33-2.

The maximizing profit strategy is also used when a new product is introduced. The goal is to make back the large amounts of money spent on research and development of



33-2

Theaters often charge high prices for snacks because they have a monopoly on food in the theater.

the product. Technology products are often priced this way. When a new product comes out, it has a high price. As competitors enter the market, the competition drives prices down. For example, microwave ovens and video cameras were very expensive when the first ones came on the market. Their prices are now much lower. Maximizing profit is often a short-term objective because the product life span is short or because competition will soon drive prices down.



Reality Check

Describe a situation in which you think the prices were set to maximize profit. Describe the products and the prices.

Maximize Sales

This strategy consists of offering the lowest price possible to get the largest number of customers to buy the product. It is often used for new products to attract customers away from the competition. For example, when Sun Drop citrus soda was introduced in 2001, the original price was

\$ 0.49 for a four-pack. This price might get people who usually drink 7 UP, Slice, Squirt, or another citrus drink to try it. After building customer loyalty, prices will gradually increase. Premiums are commonly used to reduce the price of a product, yet allow the price to rise later. Popular premiums are buy-one-get-one-free or cents-off coupons, 33-3.



Reality Check

Describe a product that you think was priced to maximize sales. Describe the product, its price, and why you think it was priced to maximize sales.

Increase Market Share

This strategy is similar to the strategy to maximize sales. The goal is to increase the company's market share of a product. In



33-3

Companies often offer buy-one-get-one-free premiums to increase sales.

Chapter 19, you learned that market share is one competitor's percentage of the total sales of a specific product. A company's goal might be to increase its market share from 10 percent to 13 percent. In order to increase market share, the company has to sell more products. They might do this by lowering prices or offering premiums.

Meet Competition

In this strategy, a company sets its prices in relationship to the prices charged by the competition. A company might decide to set its prices higher than, equal to, or lower than the competitors'. The company must closely monitor competitors' prices.

Products that have status attached to them, such as Gucci purses or BMW cars, are purposely priced higher than the competitors' prices to increase the image of prestige. For other types of products, marketers often try to match their competitors' prices. You may see advertisements in stores that say they will meet a competitor's price. Often they will give you an additional discount in order to attract customers away from the competitors.

Sometimes, when local competitors are matching prices, a price war will begin. During a price war, one company lowers its price. When a competitor sees this, it lowers its price on the same product. The original company will then lower its price, and so on back and forth. Price wars were once common among gas stations. More recently, the airline industry has had price wars with airlines matching and trying to beat their competitors' lowest prices. Even today, when one airline raises or lowers its prices most of the other airlines follow suit.



Reality Check

Have you observed competitors trying to meet or beat each other's prices? Describe the products and the prices.

Return on Investment

Companies often invest large amounts of money in research, developing new products, and improving existing products, 33-4. These companies may establish prices that will earn a specific percentage of return on the amount that was invested. For example, a company may only carry products that will earn at least 12 percent return on the investment. If a product does not meet that goal, it would be dropped.

What is return on investment? At its simplest, **return on investment**, also known as **ROI**, is a ratio that tells you how much you earned as a percentage of the investment



Courtesy of Toyota Motor Corporation

you made to earn the money. ROI is often used to indicate the profitability of a company. The better a company is at using its investments, the more profit it will make, and the higher its ROI will be.

The formula to determine simple ROI is as follows:

$$\text{Simple ROI} = \frac{\text{Profit}}{\text{Investment}}$$

In this context, profit is also called *return*, because profit is the money that returns to you. For example, suppose your company invests \$100,000 in a new product. The selling of this product yields \$12,000 in profits. The ROI for this investment would be 12 percent, 33-5.

In practice, calculating ROI can be very complex. First, there are many other financial ratios that are often treated as ROI, but are actually calculated differently. These other ratios include return on invested capital,

Calculating Simple ROI

Formula

$$\text{Simple ROI} = \frac{\text{Profit}}{\text{Investment}}$$

Data

Investment = \$100,000

Profit = \$12,000

Calculation

$$\begin{aligned} \text{Simple ROI} &= \frac{\$12,000}{\$100,000} \\ &= 0.12 \end{aligned}$$

Simple ROI = 12%

33-4

This engineer is evaluating new paints. His work represents an investment by the company in product improvement.

33-5

Calculating return on investment can be quite complex. This simple version will give you the basic concept.

return on total assets, and return on net worth. Also, it is often difficult to determine how much of the increase in profits is actually due to a certain investment. There is also an issue of time period. Changing the time period of the ROI calculation can yield different ROIs for the same investment.

Effect of Price on Revenue

From a practical standpoint, price has a huge effect on sales and revenues. Before you learn about ways to establish prices, you need to know the effect of price on quantity sold and revenue. You also need to understand the concept of the break-even point.

Effect of Price on Quantity Sold and Revenue

In Chapter 30, you learned about the effect of price on profits. For the cookie company, as the price went up, profits went up. In Chapter 32, you learned about the effect of cost on profits. For the same cookie company, as costs went down, profits went up. Now it is time to look at the effect of price on quantity sold. *Quantity sold* is a term used to refer to the number of items sold.

Have you ever gone into a store for an item, and thought to yourself, “If that item were cheaper, I would buy two.” That thought summarizes the effect of price on quantity sold, 33-6. As the price of an item goes down, more items are usually sold. As the price of an item goes up, fewer items are sold. As a result, higher prices do not always lead to higher revenues.

Remember the equation for determining revenue: revenue equals the number of items sold times the price of the item. If you charge a higher price, but sell fewer items, you might earn less revenue. A lower price that results in more items sold might result in higher revenue.



33-6

Price has an effect on quantity sold. Usually, as the price of an item goes down, more items are sold.

A simplified example will help explain the concept. Suppose that you are selling a new gadget for \$25. You want to increase revenue. Should you raise or lower the price? Based on what you learned in Chapter 30, you might raise the price to increase revenue. However, you also know that fewer customers will buy your gadget at a higher price. The example in Figure 33-7 shows the possible effect of price on quantity sold and revenue.

Possible Effect of Price on Sales of Hypothetical Gadget

Price per Item	Quantity Sold	Revenue
\$30	800	\$24,000
\$25	1,000	\$25,000
\$20	1,400	\$28,000

33-7

For this particular product, lowering the price raises the revenue. The result might be different for a different type of product.

In this example, you are currently selling the gadget for \$25. If you want to increase revenue, you can raise the price to \$30. However, 200 fewer customers would buy the gadget at that price. As a result, your revenue would be only \$24,000. You might lower the price to \$20. At that price, 400 more people would buy your gadget, and you would earn \$28,000 in revenue. For this particular product, lowering the price would raise the revenue.

Break-Even Point

When does a product start making profit? A product starts making profit when the revenue from the product equals the cost to make the product. This point is called the break-even point. The **break-even point** is the point at which revenue from sales equals costs. The break-even point is often expressed as the number of items that must be sold to recover the money spent to buy the items. At this point the company is not losing or making money, it is breaking even. Once you break even, the additional revenue is profit.

The number of items that must be sold to break even can be calculated. Here is a simple break-even equation for a retail situation:

$$\text{Break-Even Point} = \frac{(\text{Cost per Item}) \times (\text{Number of Items Purchased})}{\text{Selling Price}}$$

This equation is for a simple situation, such as your class selling stuffed toys to raise money. In such a case, there are no operating expenses, just the cost of goods sold.

Suppose your class wants to raise money by selling a stuffed animal toy wearing a shirt with your school logo. The minimum order is 100 toys at a cost of \$2.50 each. Your total cost to buy 100 toys is \$250. You need to earn \$250 to break even.

Your class decides to sell the stuffed toys for a price of \$5. How many toys would you have to sell to cover the cost of buying the toys? Multiply the cost per toy (\$2.50) times the number of toys (100). Then divide by the selling price (\$5). Your class would have to sell 50 toys in order to break even and start making a profit, 33-8.

Establishing Prices

Making a profit is important to the success of a business. In order to make a profit, businesses must set prices high enough to cover their costs and make a profit. If you price your products too high, you might lose customers. If you set your prices too low, customers might question the quality of the product. How do you determine price?

Calculating Break-Even Point

Formula

$$\text{Break-Even Point} = \frac{(\text{Cost per Item}) \times (\text{Number of Items Purchased})}{\text{Selling Price}}$$

Data

Cost per Item = \$2.50

Number of Items Purchased = 100

Selling Price = \$5.00

Calculation

$$\text{Break-Even Point} = \frac{\$2.50 \times 100 \text{ items}}{\$5.00}$$

$$= 0.50 \times 100 \text{ items}$$

$$\text{Break-Even Point} = 50 \text{ items}$$

33-8

In this simple situation, you would have to sell 50 toys to break even.

Cost Plus Profit

The simplest way to set a price is to determine the total cost and add an amount for profit:

$$\text{Price} = \text{Cost} + \text{Profit}$$

Suppose your marketing class wants to sell two-color, silk-screened sweatshirts to raise money. First you would determine the cost of the shirts. In this case, a shirt with one color is \$14.00. It costs \$0.50 for an additional color. Shipping is \$0.25 per shirt. Your total cost is \$14.75 per shirt. You want to make a \$5 profit on each shirt. To figure out the selling price you would add your costs to your profit: $\$14.75 + \$5.00 = \$19.75$. You will sell the shirts for \$19.75.

Psychological Pricing

The group of pricing techniques used in the retail market is called psychological pricing. **Psychological pricing** is a set of pricing techniques used to create an image of a product and to entice customers to buy. The following are the five most common psychological pricing techniques:

- **Odd Pricing.** Prices end in an odd number such as 5 or 9. Prices such as \$9.99, \$99.95, and \$19,995 convey an image of a bargain, 33-9. People tend to think of these prices as \$9.00, \$99.00, and \$19,000, even though the prices are actually closer to \$10, \$100, and \$20,000, respectively.
- **Even Pricing.** Prices end in zero or an even number such as 4. Prices such as \$4, \$50, and \$300 convey an image of a quality product.
- **Promotional Pricing.** Prices are lowered for running sales. Promotional pricing includes dollars off, percent reductions, rebates, coupons, and buy-one-get-one-free. Newspaper ads often show



33-9

Odd pricing is widely used.

products on sale, for example, \$10 off, 50 percent off, or a \$100 rebate. Promotional pricing is a short-term technique.

- **Prestige Pricing.** Prices are set high to convey an image of status and high quality. Jeans priced at \$80, tennis shoes for \$150, and a car for \$60,000 will make customers think they are better products. Coach (purses), Jaguar (cars), and Bose (radios) are all examples of companies that use prestige-pricing techniques.
- **Price Lining.** Prices are set at different levels to indicate different quality levels for the same type of product. Appliance stores often use price lining, 33-10. For example, a dishwasher with three features may be priced at \$250, a dishwasher with four features at \$300, and a dishwasher with five features at \$350. Price lining gives customers options and allows them to choose the features and value they want in a product.



Reality Check

What effect does psychological pricing have on you? Which of the five techniques have you encountered? What was your response?



33-10

Price lining is used for a product that has different quality levels. Price lining gives customers options to choose the features and value they want.

Unit Pricing

Many retailers price their items by the package. This is especially true for grocery items, such as bottles of shampoo or bags of pretzels. Since packages come in so many different sizes, it is often difficult for consumers to compare prices. As a result, many stores voluntarily use unit pricing. In some states, unit pricing is required by law.

Unit pricing consists of displaying the price of an item based on a standard unit of measure, such as an ounce or a pound, 33-11. For example, a bag of chips might be priced at \$1.99. If there are 8 ounces of chips in the bag, the unit price is \$0.249 an ounce. The shelf would display the total price of \$1.99 and the price of \$0.25 per ounce.



Photo courtesy of IGA, Inc.

33-11

Unit pricing is often most visible in the pricing of produce. However, some states require unit pricing for many types of packaged goods.

Discount Pricing

Companies that sell to other businesses (B2B) may use discount pricing. A **discount** is a reduction in price. **Discount pricing** offers a reduction from the regular or list price of the product. There are five major types of discounts:

- **Cash Discount.** A cash discount is a reduction in price offered to retailers who pay their bills promptly. The cash discount is usually stated as a percentage reduction in price offered for payment within a certain number of days. Cash discounts are written on the invoice in the following format: 2/10 n30. The 2 equals the percent off the price; the 10 equals the number of days to pay the bill and take the discount; the n equals net (total), and the 30 equals the number of days to pay the entire bill (without the discount) if you do not pay early. To read as a sentence you would say "You will get 2 percent off if you pay your bill within 10 days; if you do not, the total amount will be due in 30 days." Manufacturers and wholesalers use cash discounts to encourage retailers to pay their invoices quickly.

- **Promotional Discount.** A promotional discount is given to retailers and wholesalers in exchange for promotions by the retailer or wholesaler. When you see a product advertised in an ad sponsored by a retail store, the retail store probably got a promotional discount.
- **Quantity Discount.** A quantity discount is a reduction in price offered for purchasing large quantities of a product. Quantity discounts are an incentive for retailers to purchase more, 33-12. If your marketing class operates a store, you may have seen quantity discounts. Figure 33-13 shows an example of quantity discounts for T-shirts.
- **Seasonal Discount.** If retailers buy goods in advance of the season, they are often offered a seasonal discount. For example, buyers for December gift-giving season will often travel to Chicago or New York the January before to place their orders. They are buying 11 months before they need the goods to sell. Similarly summer clothing orders are placed at least six

Sample Quantity Discount

Quantity	1 – 24	25 – 48	49 – 72	Over 72
Cost per T-shirt	\$4.00	\$3.75	\$3.50	\$3.25

33-13

As the quantity purchased goes up, the cost per T-shirt goes down.

months in advance of the season, 33-14. Seasonal discounts help manufacturers plan their production and reduce inventories.

- **Trade Discount.** A trade discount is not really a discount. It is actually the way that manufacturers quote prices to retailers and wholesalers. Some manufacturers suggest retail prices for their products (MSRP). The MSRP is often used as a list price. The manufacturer then offers the wholesaler or retailer a percentage off the list price. A trade discount may be 20 percent or more off the list price.



33-12

In business-to-business sales, quantity discounts encourage retailers to buy more of a product. If the retailer's cost is lower due to a quantity discount, the retailer can often lower the price to the consumer, and therefore sell more.



33-14

Seasonal discounts are given to buyers who order in advance of the season when the products will actually be sold. For example, summer clothes ordered at least six months in advance receive a seasonal discount.

CHAPTER 33 REVIEW

Remember This

- Five common pricing objectives are (1) maximize profit, (2) maximize sales, (3) increase market share, (4) meet competition, and (5) return on investment.
- Higher prices do not always lead to higher revenue.
- A simple equation to calculate the break-even point in a retail situation is (cost per item) times (number purchased) divided by (selling price).
- The simplest way to determine price is to add cost plus profit.
- Psychological pricing techniques are used in the consumer market and include (1) odd pricing, (2) even pricing, (3) promotional pricing, (4) prestige pricing, and (5) price lining.
- Discount pricing techniques are used in the B2B market and include (1) cash discounts, (2) promotional discounts, (3) quantity discounts, (4) seasonal discounts, and (5) trade discounts.

Review Concepts

1. List five pricing objectives.
2. In order to maximize profit, how should the price be set?
3. Which two pricing objectives are very similar?
4. How should the price be set to maximize sales?
5. What image is given by pricing your products higher than similar products offered by competitors?
6. What effect might a higher price have on the quantity of items sold?
7. Does raising the price of an item always lead to higher revenues? Explain your answer.
8. What is the break-even point?
9. Give the break-even equation for a retail situation.
10. What is the simplest way to set a price?
11. List the five types of psychological pricing.
12. List the five types of discount pricing.

Think Critically

1. Why might a company *not* have maximizing profit as an objective?
2. What can a company do to offer a low price at first, yet allow the price to rise later?
3. Suppose you had a product that you priced at \$500. Suppose that the break-even point was higher than you expected, and you think that you cannot sell enough of the item to break even. What could you do?
4. How does charging the lowest price lead to maximizing sales?
5. Imagine that you own a retail store. Name the type of goods you would sell. Then name the type of psychological pricing you would use. Explain why you chose it.
6. Why would a wholesaler offer a quantity discount?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out who is responsible for setting the prices on the products. What is that person's job title and duties? What are the company's pricing objectives? What factors are considered before the price is set? How frequently are prices changed?
2. Choose a grocery product that you buy often. Visit four different stores that sell the product. Make a chart with four columns. In the first column, list the store. In the second column, list the package price. In the third column, list package size. In the fourth column, list unit price. Describe how the prices compare among the different stores. Do you usually buy the product where it is cheapest?
3. Choose a nongrocery product that you buy often or would like to buy. Find two stores where you could buy that item. Record the price of the item at each store. How do the prices compare with each other? Which store had the lower price? Which store had the higher price? Is the difference in price big enough to determine where you buy the item? What is the difference between the two stores?

Explore Careers

1. A person who collects information on prices and analyzes them is called a price analyst. Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a price analyst. Browse through the available jobs. Choose one. What will

the person in this job do? What are the requirements? Would you like this job? Explain why or why not.

2. Cashiers often have to deal with the prices of items purchased. Read the article "Cashiers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What do cashiers do? How has computer technology changed the job of a cashier? Search your local newspaper want ads or a job search Web site for cashier jobs. Find a job at a store or restaurant that interests you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not. If you were interested in a higher-level position at that business, why would a cashier job be good?

Connect to the Internet

1. Several Internet businesses are based on finding the cheapest price, such as www.Priceline.com. Visit one of these Web sites. How does the Web site work? What do you have to give up to get a really good price?
2. One of the advantages of the Internet is that it makes it very easy to compare prices. Choose a product that you would like to buy. (Consider using the same nongrocery item that you chose in item #3 under "Connect to Business.") Visit five e-tailers that sell the product. Make a chart that shows the e-tailer and Web address and the price of the item. What are the shipping and handling charges? How do they affect the overall cost to the consumer? Where would you ultimately buy the item?

A photograph of three people outdoors next to a dark-colored car. A man in a white jacket is holding a smartphone and showing it to a woman with short brown hair wearing a grey top. Another man in a yellow shirt is partially visible on the right, looking on. The background shows trees and a clear sky.

How do you
communicate with
customers?

PART 7

PROMOTION DYNAMICS



- 34** The Communication Process
- 35** Verbal and Nonverbal Communication
- 36** Promotion Is Communication
- 37** Promotional Mix
- 38** Advertising
- 39** The Advertising Plan
- 40** Visual Merchandising
- 41** Promotion on the Internet

The Communication Process

Marketing Terms

communication
effective communication
message
communication process
sender
receiver
audience
persuade
inform
express
medium
the media
mass communication
feedback
noise

After studying this chapter,
you will be able to

- describe the basic communication process.
- give examples of the three types of goals that a message might have.
- explain the role of a medium in the communication process.
- explain the feedback loop.
- describe the role of feedback in marketing.
- explain what noise does to the communication process.

Imagine that you are the marketer for a Hot New Product (HNP for short). Now imagine that you have no ability to communicate. No words. No gestures. No paper. No color. No TV. No Web. How will you let your customers know about your HNP? How will you train your sales staff to sell it? How will you find out whether your customers like the HNP? Communication and the ability to communicate effectively are at the heart of marketing, 34-1.



34-1

Communication is at the heart of marketing.



Reality Check

Think of a product that you would like to buy. How have the marketers for that product communicated with you? List at least three ways.

What Is Communication?

How would you define communication? Take a few minutes to jot down your definition. Does your definition include the following: listening, speaking, reading, writing, facial expressions, tone of voice, gestures, books, magazines, newspapers, radio, TV, the Internet, telephones, cell phones, Web cams, CDs, audiotape, videotape, plays, movies, poetry, Internet banner ads, billboards, symphonies, rock and

roll, hip-hop, laughing, and crying. All of these, and many more examples, are part of communication.

Communication is an exchange of information. The information can be facts, ideas, or feelings. Communication often uses language. However, symbols such as traffic signs or codes such as Morse code can be used to communicate. Behavior can also be used to communicate. Facial expressions such as a smile and gestures such as a handshake are also used to communicate, 34-2. In fact, behavior that communicates is often referred to as body language.

Are the following two situations examples of communication? (1) You see a child reaching for a hot stove. You yell, "Stop!" but the child touches the stove anyway. (2) You send an e-mail message to a friend. Her system crashes and she never gets the message. Actually, these are both examples of communication. However, they are examples of ineffective communication. *Ineffective communication* occurs when a message is sent, but does not get the desired result (effect).

You will learn more about how ineffective communication occurs. You



34-2

Smiles usually communicate happiness or friendliness.

will also learn how to develop effective communication. **Effective communication** is communication that gets the desired result. In order to make our communication more effective, we need to understand the communication process.



Reality Check

Describe a recent communication. Who was involved? What information was exchanged? Was the communication effective?

The Communication Process

Human beings developed language and communication because they had something to tell others. That “something to tell others” is called a message. In other words, a **message** is the information that you want to communicate. The message is the basis and the reason for communication.

The **communication process** is the path a message follows. At its most basic, the communication process has three elements: (1) sender, (2) message, and (3) receiver, 34-3.

The person who has a message to communicate is called the **sender**. The sender can be one person, a group of people,

a business, or a government. For example, your teacher (one person) is a sender. Your school newspaper staff (a group of people) is a sender. The Pepsi-Cola Company (a business) is a sender. The Internal Revenue Service (IRS—an agency of the U.S. government) is a sender.

The person who gets the message is called the **receiver**. The receiver can be one person or many people. When a friend talks to you in the hallway, you are the receiver. When your friend gives a report in class, all the students in the class are the receivers. Another word for receiver is **audience**, 34-4. This term is often used when there is a group of receivers. For example, the group of receivers who watch TV is called an audience.

The message can consist of any kind of information, including facts, instructions, requests, advertising, feelings, poetry, and

The Basic Communication Process



34-3

At its most basic, the communication process has three components: the sender, the message, and the receiver.



34-4

The sender is the person or group who communicates the message, for example, the teacher. The message is the information that is sent, for example, the lesson content. The receivers or audience are the ones who receive the message, for example, the students.

so on. Your teacher's message is the lesson content. The school newspaper's message is an update on repairs to the gym. Pepsi's message is "Buy and drink Pepsi." The IRS's message is that it is time to file federal income taxes.



Reality Check

Describe a communication in which you participated. Identify the sender, the receiver, and the message.

feelings, entertain, and socialize. Poetry, art, music, movies, greeting cards, and conversation at a party are examples of messages that express, 34-5.

Usually, the sender has a specific goal for a specific message. For example, the goal of an advertisement is to get customers to buy a specific product. The goal of a teacher is to have students understand a specific concept. The goal of a songwriter is to express a specific feeling. Knowing the specific purpose of your message is very important in business and marketing. It will help you craft a message that is clear and will be understood by the receiver.

The Message

The message is a critical part of the communication process. As you develop your message, you should keep your receiver in mind. Marketers must keep their target market in mind. With the thought of your receiver in mind, you must answer two questions: What do you want to communicate? How do you want to communicate?

What to Communicate

Messages can be grouped into three types based on the general goal or purpose. The three types of goals are (1) persuade, (2) inform, and (3) express. Some messages have a combination of goals.

Messages that **persuade** include all messages that try to change the behavior of the receiver. Advertisements, invitations, and traffic lights are examples of messages that persuade.

Messages that **inform** include all messages that provide information and education. Nutrition labels, exercise videos, textbooks, and assembly instructions for a product are examples of messages that inform.

Messages that **express** include all messages that communicate personal



34-5

Music is one form of communication.



Reality Check

Think of a message that you have sent. Describe the message. Then tell the general and specific goals of that message.

How to Communicate

Every message must be transformed from thoughts into a form that can be communicated. It must also be transformed into a form that the receiver can understand. Most people convert their messages into a language. A *language* is a common system of symbols used to communicate meaning. Messages can be transmitted in one of the spoken languages, such as English,

Spanish, Chinese, or Russian. Messages can also be transmitted in language systems that do not rely on speech, such as Braille, American Sign Language, Morse code, and semaphore, 34-6. In order for a language to be understood, the receiver as well as the sender must know the language.

Messages usually have two components: a verbal part and a nonverbal part. The verbal part of the message is the part based on words. Many decisions must be made when developing the verbal part of a message. The first decision is the choice of language. Once the language is chosen, other decisions include word choice and writing style.

The nonverbal part is everything that is communicated without or beyond the words. The nonverbal part often communicates



People who use American Sign Language communicate messages without speech.

emotion. Most messages contain a nonverbal part, even if the sender does not consciously include it. In written communication, the nonverbal part includes color, layout, and design. In oral (spoken) communication, the nonverbal part includes speed, tone, and loudness of voice. In face-to-face communication, the nonverbal part includes body language. You will learn more about verbal and nonverbal communication in the next chapter.



Reality Check

Describe a situation in which you communicated nonverbally. Include the message, its purpose, and the receiver. Did the receiver understand the message? How do you know?

Medium

Communication can take place in two ways: with a medium or without a medium. A **medium** is a substance or technology that is used to carry a message. For example, the paper of this textbook is the medium for carrying the message from the authors to you. The telephone is another medium of communication.

Communication without a medium occurs when the sender and the receiver are in the same physical place at the same time. They are close enough to directly hear, see, and interact with each other. When you talk with a friend in the hallway, you are communicating without a medium. When a salesperson shows a product to a customer, the salesperson is communicating without a medium.

People who need or want to communicate with each other may not be in the same physical space. They may also be separated by time. In this situation, the sender must use something to get his or her message to the receiver. How did people

solve this communication problem in the past? They developed a variety of materials to carry messages. Ancient mediums of communication included smoke signals, drum beats, symbols chiseled in stone, and ink on papyrus. Modern mediums include cell phones, TV, and the Internet, 34-7. People still use paper, one of the earliest mediums used for communication.

Some mediums are mainly words written on paper, for example, letters, books, and posters. Other mediums use color, shape, and position, for example, paintings, sculpture, and traffic signals. The electronic mediums use the technology of electricity to convey messages. Examples include telephones, radios, TV, and computers.

**34-7**

How do people communicate when they are not in the same physical space? A popular medium today is the cell phone.

One group of mediums is called *the media*. (In Latin, *media* is the plural form of *medium*.) **The media** refers to the organizations and companies used to communicate with the public. The media includes companies that communicate via television and radio stations, wire services, newspapers, magazines, and the Internet. The media is often used when the sender wants to send the same message to a large number of receivers. Communication that sends the same message to a large number of receivers is called **mass communication**. Mass communication is like mass marketing. The same message goes to all receivers.

The choice of which medium to use for a message is very important in marketing communication. Marshall McLuhan, a Canadian professor of communication in the 1960s, said, "The medium is the message." This statement means that the choice of medium used has a major impact on how the message affects the receiver. For example, a message in a printed newspaper ad has a different impact from a message conveyed by a TV commercial. You will learn more about the choices of medium in the following chapters.



Reality Check

Which medium of communication do you use most often? Name at least two other mediums that you use.

Feedback

Most communication has a goal. The goal is to cause the receiver to respond in some way. For example, a server in a restaurant asks a customer, "What would you like to order?" The server expects the customer to respond by ordering food from the menu. The response to a message is called **feedback**, 34-8.



34-8

An important part of communication is feedback. Often, feedback is the response the receiver gives to a question. The waiter is asking the customers if they would like grated cheese. He expects a response, that is, verbal feedback that will let him know what to do next.

Feedback is actually a message that is sent from the receiver back to the sender. The feedback may travel through the same medium as the original message, or the feedback may travel back to the sender through a different medium. For example, suppose you e-mail a friend inviting him to go to the movies with you. Your friend responds by calling you on the telephone to tell you yes. In this example, the sender is you, the message is the movie invitation, the medium is the Internet, and the receiver is your friend. The feedback is the answer yes, but the receiver sent the feedback through a different medium, the telephone.

In a marketing context, an electronics store places an ad in the newspaper. The ad announces a sale on computers. The customer sees the ad in the newspaper, goes

to the store, and buys a computer. In this example, the sender is the electronics store; the message is the ad; and the newspaper is the medium. The feedback is the purchase of the computer by the customer.

Feedback completes the communication process. It can be considered the fourth element of the communication process. Feedback lets you know whether the receiver has received and understood your message. Feedback lets you evaluate whether your message has been effective. As you can see in Figure 34-9, the communication process is actually a cycle. The path from the receiver through a medium back to the sender is the *feedback loop* of the communication cycle. The *communication cycle* is the communication process plus the feedback loop.

Feedback performs a very important task in communication. Feedback tells the sender whether or not the communication was effective. Many communications are ineffective for a variety of reasons. You will learn about some of the reasons in the next section. Marketers are interested in making all their communications effective. You will also learn ways to make communication effective. Communication is effective when the receiver responds in the way that the sender wanted him or her to respond.

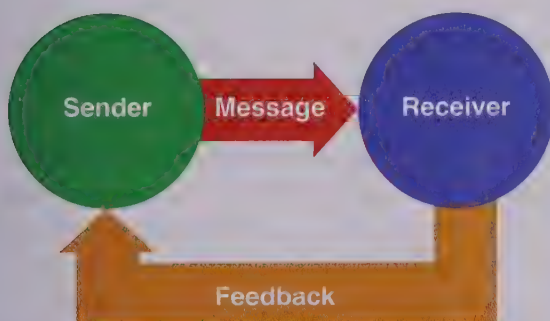
For example, suppose that a snack company is introducing a *new* snack food.

The snack company places ads on TV. Soon after the ads start airing, sales of the new snack food go up. The response (in this case, a significant increase in sales) tells the snack company that the target market heard, understood, and acted on the communication. The communication in this advertising was effective.

Suppose that the feedback indicates that the receivers did not understand the message or did not respond properly. The feedback may also give the sender information about how to change the message. The sender can then change the message so that receivers might understand it better the second time. When the message is changed, the receivers can then respond the way the sender wants them to respond. To change a message to meet the needs or abilities of the receiver is to *adapt the message*.

Feedback is a major part of the marketing concept. Feedback enables the marketer to adapt the marketing mix to meet the customers' needs and wants. Marketing research is designed to find out whether the customer received, understood, and acted on the message from the company. In the case of the snack company, no increase in sales would indicate that the target market did not respond to the message and that the communication in the advertising was not effective. The snack company would then have to do some marketing research to find out why the target market did not respond by buying the new snack product. (This scenario assumes that the company performed research before developing the snack and knew that the target market would like the snack.)

The Communication Cycle



34-9

Feedback completes the communication cycle.



Reality Check

Give an example of feedback that you have received. Did that feedback cause you to change your behavior?

Interference with Communication

Many, many things can cause a message to be missed or misunderstood. Problems can exist in the message itself, in the medium, or in the communication process. Problems in the message are usually related to word choice, clarity, or lack of commonality in language or culture between the sender and the receiver. Problems can also arise due to the choice of medium. For example, a company creates a TV ad as a cartoon. This particular target market does not respond to cartoons. A different medium would be more attractive to this particular target market.

Problems can also arise in the communication process. Things that interfere with the communication process are called **noise**. Noise is also called *interference* or *distractions*. Noise can cause the message to get changed or lost along the path from sender to receiver. Noise can interfere at any point in the communication process. Here are four types of noise: (1) physical noise, (2) technical problems, (3) external distractions, and (4) internal distractions.

Physical Noise

Physical noise is any sound that distracts the receiver from the message. The noise can occur in the sender's location, in the medium, or at the receiver's location. For example, a telemarketer may call a home near a construction site. The sound of a jackhammer could interfere with this communication, 34-10.

Technical Problems

Technical problems are any electrical, mechanical, or physical failures that interfere with the communication. Technical problems can occur in the sender, the medium, or the receiver. For example, a salesperson



34-10

In general anything that interferes with communication is called noise. It includes actual physical noise, such as the sound of a jackhammer. It also includes technical problems and external and internal distractions.

might have laryngitis and not be able to talk clearly to customers. A printing press might have a problem, and all the ads printed in a newspaper are blurry. Stormy weather or changes in the atmosphere often cause telephones, TVs, and radios to have transmission problems. Computers and the Internet can have problems that interfere with the transmission of e-mails. The receiver may have a power outage, which causes the Internet connection to be lost.

External Distractions

External distractions are anything in the environment that takes the sender's or the receiver's attention away from the message. External distractions can occur in the sender's location, in the message, or in the receiver's location. For example, a sales associate is working with a customer. The telephone rings, and the sales associate must answer it. The external distraction of the phone call interferes with the communication with the customer.

Internal Distractions

Internal distractions are distractions that occur within the sender or receiver. Internal distractions are usually physical or emotional. Physical internal distractions include fatigue, pain, and illness. For example, imagine sitting in class when you have a pounding headache. How well can you receive the teacher's message?

Emotional internal distractions can arise from many sources. The mood of the sender or receiver might be angry or sad. For example, suppose a telemarketer has just received bad news. He or she might be distracted and unable to send a clear message, 34-11. Another major cause of emotional distractions is preoccupation with thoughts not related to the message. Suppose the receiver or sender is planning a party. He or she might be thinking about the party rather than the message being sent or received. A major cause of preoccupation is planning a response while someone is sending a message to you. If you are planning a response while someone is talking to you, you might miss a great deal of the message being sent.

Emotional internal distractions also occur when the sender or receiver has an issue with the sender, the receiver, or the message. For example, when people disagree, they often do not really listen to each other's messages. Prejudice is another cause of



34-11

Internal distractions create communication problems for many people. For a salesperson or telemarketer, the internal distraction could cause him or her to misunderstand the customer's message or perhaps make a mistake in the order.

emotional internal distractions. If a person feels prejudice toward another or feels discriminated against by another, he or she is likely to have emotional interference during communications with the other person.



Reality Check

Give an example for each of the four types of noise. Describe how each one interferes with communication.

CHAPTER 34 REVIEW

Remember This

- Effective communication is communication that gets the desired result (effect).
- In the basic communication process, a message flows from the sender to a receiver.
- The three types of goals of messages are (1) to persuade, (2) to inform, and (3) to express.
- A medium is a material or technology that is used to carry a message.
- Feedback lets the sender know whether the communication was effective.
- Senders use feedback to adapt a message to meet the receiver's needs.
- Noise interferes with the communication process.

Review Concepts

1. Give three examples of ways that you communicate on a daily basis.
2. Give three examples of ways that someone else communicates with you.
3. List the three elements in the basic communication process.
4. List the three types of messages based on their goals.
5. People who want to communicate are often *not* in the same place at the same time. What can be done to overcome this communication problem?
6. What is the difference between mediums and "the media"?
7. What mediums do the mass media use to communicate?
8. Why is feedback important?

9. What can a sender do if he or she finds out that a communication was ineffective?
10. Draw a diagram of the communication cycle.
11. List the four types of noise and give an example of each.

Think Critically

1. Describe an advertisement that you saw or heard recently. Identify the sender, the message, and the receiver. Was this message effective? Explain why or why not.
2. For each of the three types of messages, give an example in which you were the sender.
3. For each of the three types of messages, give an example in which you were the receiver.
4. How important do you think nonverbal communication is in written communication and in oral communication? Give reasons for your answers.
5. Imagine that you have had a misunderstanding with a good friend. You want to convey the message, "I am sorry." Describe three different mediums you could use to convey this message. Explain how these mediums illustrate the statement, "The medium is the message."
6. How can emotions within the sender or the receiver interfere with communication?

Connect to Business

1. Observe communications among coworkers at your workstation or at a local business, such as a restaurant or

auto repair shop. Describe an instance of nonverbal communication. Describe the sender, the message, and the receiver. Was the nonverbal communication effective?

2. Watch a TV commercial. Write down the sender, message, and receiver. What type of message is it, that is, does the message persuade, inform, or express? How does the advertisement accomplish its communication goal?

Explore Careers

1. Obtain a page of want ads from a local newspaper. Read through the ads and highlight requests for communication skills. Include writing skills, presentation skills, and customer relations skills. Choose one of the ads. Describe the job, and then explain how a person in that job would use communication skills. Then, make a list of all the jobs that request communication and related skills. Then make two more lists. In the first, list the jobs that you think assume good communication skills, even though they did not specifically request them. In the second list, list the jobs that did not request communication skills and for which you think these skills are probably less important.
2. The broadcasting industry hires many people who must be skilled in verbal and nonverbal communication. For an overview of this industry, read the article, "Broadcasting" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Make a list and describe all the occupations that require communication skills. Make a list and describe the sales, promotions, and

marketing occupations in broadcasting. There are also many technical occupations. Do any of these careers interest you? Choose one and describe why it interests you.

3. Some children and adults have problems with speech, language, and communication. Speech-language pathologists treat and help prevent these problems. Read the article, "Speech-Language Pathologists" in the *Occupational Outlook Handbook*. What kinds of communication problems do speech-language pathologists treat? What can cause these problems? How do speech-language pathologists help their clients solve these problems? Would you be interested in being a speech-language pathologist? Explain why or why not.

Connect to the Internet

1. Select three consumer Web sites. Make a collage of the way each Web site communicates to the audience. Identify the target market for the Web site. Explain how you can tell that the site appeals to the market you have identified.
2. Do television and radio stations have Web sites? Find the Web site of one TV station and one radio station. What does each Web site offer? Can you watch the TV or listen to the radio on the Web? Are there advertisements from the same sponsors as on the TV or radio? What other information is available at each Web site? Does the TV Web site differ from the radio Web site? In what ways? What is your opinion of each Web site? Is it effective? Would you visit either Web site again?

Verbal and Nonverbal Communication

Marketing Terms

encoding
transmission
decoding
tone
clarity
nonverbal communication
emotion
design
body language
artifact

After studying this chapter, you will be able to

- describe the three stages that messages go through.
- explain how to avoid problems when messages are decoded.
- explain why word choice is the main verbal tool.
- list the five tools of nonverbal communication.
- describe the role of emotion in marketing messages.
- give an example of how nonverbal communication is used in marketing.

Have you ever played the game “whispering down the lane” (also called “telephone” or “gossip”)? Each person in a circle whispers the same message to the next person. What happens to the message along the way from the first person to the last? Usually, the message gets changed so much, that it is not recognizable! In communications of all kinds, the message that is sent is often not the message that the receiver gets, 35-1.



Reality Check

Describe a situation in which you either heard a message wrong or could not understand the message you did hear. Why did you not understand the message?



35-1

What happens during communication? Have you ever sent a message that was misinterpreted?

What Happens to Messages?

Many things happen to a message between the moment that the sender gets the idea and the moment that the receiver understands the message. In the previous chapter, you learned about the communication process. In this chapter you will learn what happens to the message during the communication process. There are three general stages that all messages go through: (1) encoding, (2) transmission, and (3) decoding. These stages are considered to be part of the communication process.

Encoding is performed by the sender.

Encoding involves turning the idea

for a message into symbols that can be communicated, usually written or spoken words. Encoding includes decisions about which language to use, verbal and nonverbal aspects of the message, and the choice of medium. Encoding is the stage when the message is created.

Once the message is encoded, it is ready to be sent. The sending of a message is called **transmission**. If the message will be transmitted in person, then no other material or technology is required. If a medium is used, transmission can involve many steps. The steps in transmission depend on the medium used. For example, suppose that the medium chosen is a newspaper ad. The marketer must send a copy of the ad to the newspaper. The newspaper company might

retype the ad as part of the preparation for printing. Then the ad will be printed as part of the newspaper printing process.

Decoding occurs when the receiver gets the message. **Decoding** is the translation of a message into terms that the receiver can understand. Decoding occurs in the receiver's mind. Decoding is usually seen as the process of understanding a message. Encoding, transmission, and decoding can be seen as parts of the communication process, 35-2.



Reality Check

Think of a message that you have sent or plan to send. Describe the encoding, transmission, and decoding of that message.

Where Problems Occur

Problems can occur during encoding, transmission, and decoding. During the encoding process, the way the sender encodes the message can create problems. Sometimes these problems are not

discovered until the receiver tries to decode the message. Problems with transmission are often mechanical, for example, when a storm interferes with TV, radio, and telephone transmissions. Problems in decoding occur when the receiver cannot understand the message sent. Sometimes the sender does not realize that there are any problems until the receiver does not respond as expected.

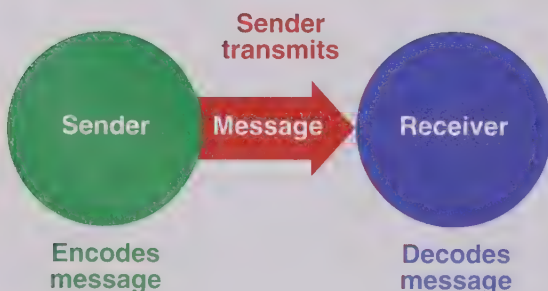
If the receiver cannot understand the message, the message has no chance of accomplishing its goal, 35-3. For example, suppose you see a person about to step in the path of a speeding car. You can shout, "Stop!" However, what if the street corner is very noisy and the person cannot hear you? What if the person is deaf? What if the person does not understand English? You will have to find another way to communicate your message. In this case, grabbing the person's arm might work.



Reality Check

Think of a message you sent that was not understood. Why did the receiver not understand your message?

Encoding and Decoding as
Part of the Communication Process



35-2

Encoding, transmission, and decoding are part of the communication process. Encoding takes place in the sender. Transmission is the way the message gets from the sender to the receiver. Decoding takes place in the receiver.

Avoiding Problems

The first requirement for messages is that the sender and the receiver know the language used to encode the message. At first, this seems like an obvious requirement. However, many problems arise in marketing communication due to lack of a common language. Sometimes problems occur when people have a common language but not a common culture.

A classic example occurred when the Chevrolet automobile company decided to sell its Nova automobile in Mexico. Chevrolet thought the name was a good one, since *nova* in Spanish means *star*. However, the customers in Mexico heard the name as



35-3

If the receiver cannot understand the message, the message has no chance of accomplishing its goal. Reasons that messages are not understood include poor encoding by the sender, problems during transmission, or problems that the receiver has with decoding.

no va, which in Spanish means, “It doesn’t run,” a terrible name for a car!

Lack of familiarity with a culture can result in unexpected problems. An example of this occurred when the Gerber Products Company started selling baby food in Africa. Gerber used the same packaging as in the United States: a picture of a smiling baby. They later found out that in Africa, packaging shows the *contents* of the

package, to help those who cannot read. Can you imagine what the African mothers thought when they saw the boxes of Gerber baby food?

Marketers need to remember the marketing concept when they develop marketing messages. The marketer needs to understand the language, culture, situation, needs, and wants of the receiver, that is, the target market, 35-4. The marketer has to put himself or herself in the shoes of the target market. It is always good to try out a message on some people from the target market. In this way, you can discover mistakes that you might not otherwise find.

Marketers cannot control the entire communication process. The main area where they have control is the encoding of the message. They can use the tools of verbal and nonverbal communication to help them create clear messages. While creating the message, the marketer must always keep the target market in mind. The rest of this chapter will discuss the verbal and nonverbal tools you can use for developing clear messages.

Verbal Tools

Words are very powerful. Think of the effect of the word *sale* posted in the window of your favorite store. That one word will cause you and others to enter the store, look at merchandise, and possibly buy something. The main verbal tool that a marketer has is the choice of words. The words marketers choose depend on the target market, the purpose of the message, and the effect they want to have on the target market.

Word Choice

Words carry most of the information in marketing communication. Imagine watching a TV commercial without sound. Imagine a print ad without any words. Very few images are strong enough to carry a



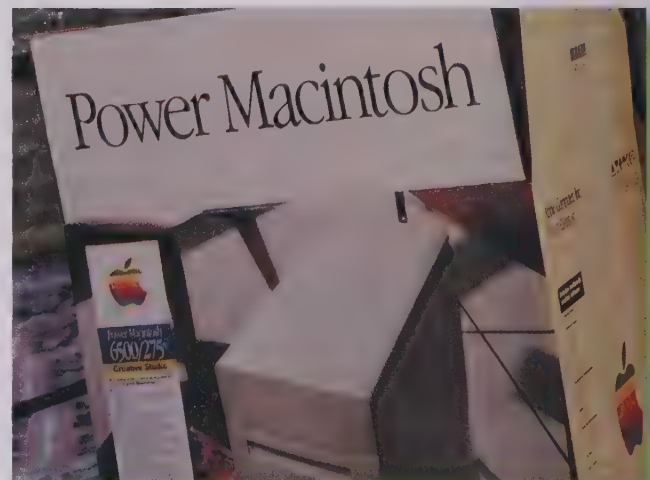
35-4

Even when the marketers and target market speak the same language, marketers must understand the culture, needs, and wants of the target market.

marketing message on their own. Those that can, such as the Nike swoosh or the Apple Computer apple, are strong only because of all the advertising with words that preceded them, 35-5. Often, the sound track from a TV commercial is used successfully on the radio.

Word choice determines the tone and clarity of a message. **Tone** refers to the feeling conveyed to the receiver from the words you choose. Tone can vary from warm to cold, friendly to hostile, humorous to serious, casual to professional, formal to informal. Words carry with them emotional value. Words should be chosen to convey the emotion that you want to convey.

Clarity refers to the ability of a message to be understood. Once you have determined the language for the message, you have a huge variety of words from which to choose.



35-5

Courtesy of Apple Computer

The Apple Computer logo is one of the few images strong enough to be recognized without words. Most advertising and logos need words.

Marketing messages are usually best when they are short and to the point. Marketers usually look for the shortest way to convey the message. Many ads use words that paint pictures or convey emotions. You will learn more about word choices and advertising in Chapter 38.

Brand Names

Word choice is especially important when choosing the brand name for a product. A poor name choice can cause a product to fail. A classic example is the Isuzu automobile. The Japanese car company, Isuzu Motors, established an American division, American Isuzu Motors. They named their car the Isuzu. It did not compete well against Toyota, Honda, and Nissan. To Americans, the name Isuzu just does not sound good. Think about some of the sounds or words it reminds you of. People did not want to say, “I own an Isuzu.” American Isuzu Motors spent over \$30 million on advertising to improve the perception of the car and its name; however, it did not change the negative perception.

Then trucks and sport utility vehicles (SUVs) started becoming popular. Isuzu decided to move into the light truck and SUV market. They also decided to develop new names for their new vehicles. They chose names such as Trooper and Rodeo. The Trooper became a bestseller. The name reflected the rugged dependability of the vehicle, and owners are proud to say, “I own a Trooper.”



Reality Check

List the brand names of at least three products that you use. Does the brand name fit the product? Does the brand name project an appropriate image? Explain your responses.

What Is Nonverbal Communication?

You walk by a bakery and smell the fresh bread. You pass the music store and hear your favorite band playing. You pass a movie theater, and the flashing neon lights draw your attention to a new movie. The smell of the bread, the sound of the band, and the flashing lights are all nonverbal marketing messages, 35-6. **Nonverbal communication** consists of messages sent without words. Other examples of nonverbal communication include tone of voice, facial expressions, and the use of color.

Nonverbal communication uses the same communication process as verbal communication. The sender encodes a message and sends the message to the receiver, who then decodes the message. Often, verbal communication and nonverbal communication are used together. Feedback is also part of the nonverbal communication process, though sometimes the feedback is verbal.



Photo courtesy of IGA, Inc.

35-6

Many grocery store bakeries bake their own bread. The aroma of baking bread draws customers to the bakery area.

Most messages have two parts: a verbal part and a nonverbal part. Sometimes the message conveyed by the verbal part contradicts the message conveyed by the nonverbal part. If the two parts contradict, it is usually the nonverbal part that is believed. How does this happen? During general communications and interactions, the nonverbal encoding usually occurs automatically or unconsciously. For example, suppose you are talking to someone and saying, "I am not angry." However, your face is red, and you jab your finger at the person while yelling out each word. The words say that you are not angry, but your nonverbal message is that you are very angry. Most people would conclude that you are angry, despite your words.

Emotion is also a large part of our daily communication. **Emotion** is another word for *feelings*. Emotions range from positive to negative, from friendly to hostile, from happy to sad. Many of our emotional messages are carried nonverbally.

Emotion is very important in product development, promotion, and sales. Marketers want their products to create positive emotions in consumers, such as happiness, safety, glamour, and prestige, 35-7. Promotional and sales messages want to convey similar emotions. One of the goals of promotional and sales messages is to create a bond of trust and friendship with the customer. These emotional messages are often conveyed nonverbally. Marketers hope that the result of these positive emotions will be the purchase of the product.



35-7

Marketers want their products to create happy emotions in customers.

Nonverbal Tools

Five tools of nonverbal communication are (1) design, (2) voice, (3) body language, (4) artifacts, and (5) the five senses.

Design

Design is the purposeful arrangement of items in order to produce a certain effect. Items to be arranged might be words on a page, clothing in a display window, or furniture in an office. The elements of design include color, shape, and size. Design is very important in advertising and visual merchandising. Chapter 40 provides more information on design.

Voice

The sound of the human voice, not just the words spoken, has great power of nonverbal communication. The qualities of speech include speed, pitch, and loudness.



Reality Check

How do you use nonverbal messages in your life? Can you think of any nonverbal marketing messages that you have noticed? Describe at least one.

These qualities are used to create the tone of voice. Tone is sometimes called expression. As in writing, tone of voice conveys emotions. The voice can convey a whole range of emotions such as joy, happiness, disappointment, anger, professionalism, and competence.



Reality Check

Think about the word “hello.” Make a list of different emotions that this one word could convey, based on the way it is said. With a partner or a group, say “hello” to convey these different emotions. Can your partner guess the emotion?

Body Language

Body language is communication through facial expressions, gestures, body movements, and body position in space. Facial expressions include smiles, frowns, raised eyebrows, and eye contact. Eye contact occurs when two people look directly into each other’s eyes. It might only last a moment. Gestures include handshakes, a wave, or a shoulder shrug. Body movements include trembling, turning one’s back, and stepping closer. Body position includes straight posture, leaning back in a chair, and slouching, 35-8. Marketing uses body language in sales, advertisements, and display mannequins.

There are very few universal gestures. However, smiling almost always means friendliness. Turning your back on someone is almost always considered rude. The handshake is a nearly universal gesture of greeting, especially among men and in business situations. Most other body language is affected by culture. The same body language can mean entirely different things in different cultures. Therefore, you must be especially careful with



35-8

Body language has many elements, including facial expressions and the position of the body in space.

body language when marketing to and communicating with people from different cultures.

For example, the length of eye contact means different things in different cultures. Americans consider eye contact as evidence of interest and trustworthiness. Many Asian cultures consider eye contact to be confrontational or rude.

The same gesture can mean different things in different cultures. For example, there is a hand gesture that is made by making a circle with your thumb and

forefinger, and leaving the remaining three fingers open. In America, the gesture means OK and general approval. In Latin America, it is a rude gesture. In France, it means zero or worthless.



Reality Check

Look at the body language of the people around you. What is their body language telling you?

Artifacts

An **artifact** is an object or product used to communicate information about oneself or one's status. Clothing and accessories are the main artifacts used to tell others about ourselves, 35-9. Artifacts such as furniture, carpeting, and lighting convey atmosphere in a store, office, or home. The styles, colors,



35-9

What artifacts do you use to communicate about yourself? How have you decorated your locker or your room?

and arrangement of artifacts can create a variety of atmospheres. Examples include warm and friendly, professional, and strictly business with no frills. The use of artifacts for marketing is called *visual merchandising*. Visual merchandising will be covered in Chapter 40. Artifacts are also important in advertising. For example, in ads for medicines and health products, the actors are often dressed as doctors or pharmacists.



Reality Check

Analyze what you are wearing. What nonverbal messages do your clothing and accessories send about you?

Five Senses

The five senses are sight, hearing, smell, taste, and touch. These senses are valuable tools for nonverbal communication. Sight is the sense used to perceive design and color. Often, the "look" of a product or a place can make a customer feel comfortable or uncomfortable. Sound can be used to create an atmosphere in a store or office. Doctors have found that soothing music can help patients feel calm. The smell of baking cookies can make a house for sale seem more appealing. Touch is the sense used to perceive the texture of surfaces. The feel of clothing, furniture, linens, and stationery can create a feeling of luxury and comfort.



Reality Check

Describe a situation in which the sight, sound, taste, smell, or touch of a product had an effect on you.

Nonverbal Communication and Products

The impact of nonverbal communication from products may not be obvious. However, the nonverbal messages a product sends can have a large impact on the success of the product. Sometimes, the nonverbal messages are not planned. Unplanned nonverbal messages can sometimes be negative.

Goods

The design of goods can send nonverbal messages to consumers. Consider the marketing of an automobile. There are many physical requirements that dictate the design of a car. For example, a car must have four wheels, an engine of a certain size, and a certain amount of material in the body. Beyond the engineering requirements, you can add features that will appeal to the target market. What features will the target market like? The features of the car can communicate with the target market, without any promotional materials.

Will this model be a luxury car? A fun first car for young people? A “muscle” car?

The luxury car might have leather seats and be large and comfortable (touch, smell, and sight). The fun car might have a round shape and come in bright colors (shape, color). The muscle car might have a sleek shape and the image of a powerful wild animal on the grill (shape). Examine Figure 35-10. Notice the front of each car. The design of the grill, headlights, and the line where the hood meets the car body gives the car a face-like expression. (Cartoonists often use this quality to give cartoon cars personality.) This face-like expression communicates a feeling to the consumer. What feeling do you get from the front of each car in Figure 35-10? Notice that the pictured VW Beetle has “eyelids” over its headlights. To most people, the VW Beetle looks like a happy, grinning face, which fits the overall image of the car. To most people, the Mustang has a more serious, tough look.



Reality Check

Do you own or want any product that is considered a status symbol? If not, have you seen a product that is a status symbol? How does that product communicate status? How do the marketers for that product communicate status?

Volkswagen Beetle



Ford Mustang



35-10

Left: Photo by Jack Klasey; Right: Courtesy of Ford Motor Company

The design of goods sends nonverbal messages to consumers.

Services

Services also need to think about nonverbal messages. The decor and nonverbal behavior of the people in a service business can have a large effect on customers. Consider the marketing of a service: a beauty salon. In a beauty salon, the product is hair care and styling. The quality of the stylists is the core feature of your product, and you will probably advertise their expertise. However, every aspect of the salon and the people who work there communicate with the customers, 35-11. If the target market is young people who like heavy metal music and extreme sports, decorating the salon in black and purple and playing heavy metal music will attract them. However, if the target market is businesswomen, a different decor is required to help these customers feel comfortable and welcome in the salon.



35-11

The feeling a customer has about a service business is influenced by the nonverbal messages from the decor and the people who work there.

The nonverbal behavior of the salon staff also communicates with the customers. When you call to make an appointment, how does the voice of the receptionist sound? Does he sound bored? Does he sound flustered and immediately put you on hold? Does he sound cheerful and interested in helping you? The nonverbal behavior of the receptionist will influence your impression of the salon and your feelings about whether you want to go there or not.



Reality Check

Think about your favorite store or restaurant. Describe the nonverbal messages that cause you to like the place.

Ideas

Consider the marketing of an idea: vote for a particular political candidate. In this case, the product is the candidate herself and the goal is to get people to vote for her. In the days before radio and television, the writings and speeches of political candidates were very important. Now, a major part of a political campaign is the image of the candidate on radio, TV, and at large rallies. Image is projected by nonverbal communication. What the candidate wears, the tone of her voice, and the way she looks at the camera all determine whether the candidate will appeal to the voters. There is a whole profession of "image handlers," people whose main job is to coach candidates on how to use nonverbal communication to win over voters.

CHAPTER 35 REVIEW

Remember This

- Messages go through three stages: (1) encoding, (2) transmission, and (3) decoding.
- To avoid problems during decoding, keep the target market in mind.
- Words are very powerful.
- Five tools of nonverbal communication are (1) design, (2) voice, (3) body language, (4) artifacts, and (5) the five senses.
- Marketers want to create positive emotions in the target market.

Review Concepts

1. What happens to a message from the time it is an idea in someone's mind to the time another person receives the message?
2. List three things that can go wrong while a message is going through the communication process.
3. What can a marketer do to help avoid creating a message that the target market cannot understand?
4. Give an example that shows the power of a word or a few words, and explain why this word is powerful.
5. Why can the sound track of a TV commercial sometimes work well on the radio?
6. What is the difference between tone and clarity?
7. How can you communicate without words?

8. Why do marketers want to convey emotions?
9. List five tools of nonverbal communication.
10. Name a product that appeals to at least two of your senses. Then describe how it appeals to those senses.

Think Critically

1. Think of the example of the "whispering down the lane" game described at the beginning of the chapter. Why or how does the message get garbled in this situation?
2. People's first names are like brand names. Some names give a more positive impression than others. Make a list of names that make a positive impression on you. Explain why. Make a list of names that have a negative impression on you. Explain why. Should this affect the way you respond to people with those names?
3. Has anyone ever said to you or to someone else, "Don't give me that attitude"? What is "attitude"? When a person has attitude, how does that person look? What is that person's body language?
4. Give an example that shows how the design or "look" of a product influences whether a person buys the product.
5. Imagine that you have just graduated from school and are looking for your first job. What artifacts, that is, clothing and accessories, would help you look more mature and professional?

CHAPTER 35 REVIEW

6. One of the hardest types of body language to disguise is nervousness. Imagine that you were being waited on by a nervous salesperson. What kinds of body language would the salesperson be exhibiting? What suggestions would you make to him or her so that he or she would appear or be less nervous?
7. Political candidates market their ideas. What other people or organizations market their ideas? Give some examples of the people and organizations and their ideas.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out how nonverbal communication is used. If the business is a retailer, find out what kinds of nonverbal messages customers send.
2. Visit a grocery store or retail store. Does the amount of space given to a particular product send a nonverbal message? Choose two items (or two product types) that take up different amounts of display space. Name the items. Then describe how each is displayed. What does the way these products are displayed tell you about these products?
3. Find print ads for three different products, such as a medicine, a snack food, and a service. First analyze the words for tone and clarity. What is the tone of each ad? What emotions do the words convey? Is the message clear?

Then analyze the nonverbal aspects. How did the designer of the ad use nonverbal messages to create tone?

Explore Careers

1. Photographers focus on the visual aspects of communication through pictures. Photographs are a very important component of print ads. Read the article, "Photographers" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. List the types of photographers and briefly describe what they do. What kind of training and qualifications does a photographer need? Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a photographer. What kinds of companies are looking for photographers? Would you like a job as a photographer? Explain why or why not.
2. Announcers focus on the auditory aspects of communication. Read the article, "Announcers" in the *Occupational Outlook Handbook*. What do announcers do? Where do they work? What skills and training are needed? Visit the Web site of the National Association of Broadcasters (www.nab.org). How could membership in this organization help you get a job? Visit the career center. Browse through the jobs. Choose one. What are the requirements for this job? Would you like this job? Explain why or why not.



Connect to the Internet

1. Visit the Web site for M&Ms candies (www.mms.com). Who is the target market for this Web site? How do you know? What activities and information are available at this Web site? Analyze the verbal communications on the home page. Are they clear? What tone is conveyed? How is the tone conveyed? What nonverbal elements are used to communicate on this Web site? List as many as you can, and explain the effect of each one. Do you think the target market will like this Web site? Explain why or why not.
2. Visit the Web site of Kraft Foods (www.kraftfoods.com). Who is the target market for this Web site? How do you know? What activities and information are available at this Web site? Analyze the verbal communications on the home page. Are they clear? What tone is conveyed? How is the tone conveyed? What nonverbal elements are used to communicate on this Web site? List as many as you can, and explain the effect of each one. Do you think the target market will like this Web site? Explain why or why not. If you have also analyzed the M&M Web site, compare and contrast the two Web sites.

Promotion Is Communication

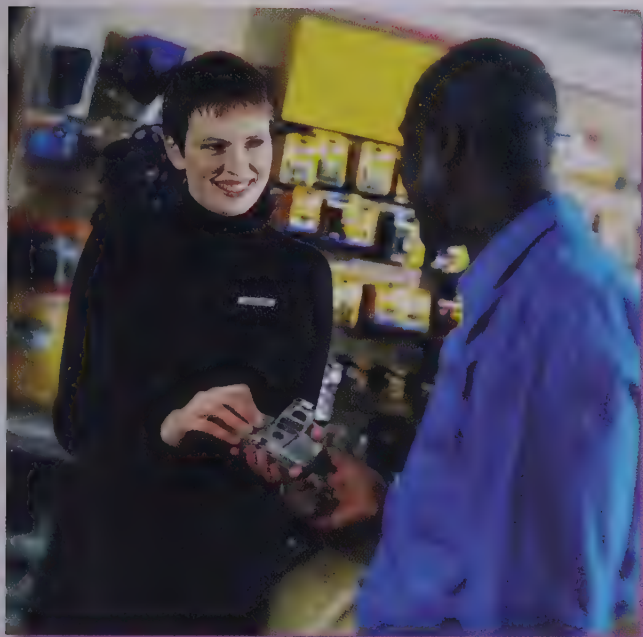
Marketing Terms

marketing communication
effective promotion
product promotion
institutional promotion
personal promotion
nonpersonal promotion
advertising
sales promotion
coupon
rebate
premium
trade show
trade allowance
public relations
publicity

After studying this chapter, you will be able to

- describe the role of promotion.
- list three goals of promotion.
- describe how the communication process works in promotion.
- explain the difference between institutional and product promotion.
- explain the difference between personal and nonpersonal promotion.
- describe and give an example of each of the four elements of promotion.
- explain why the marketing concept is important in promotion.

Have you seen any promotion recently? As you learned in Chapter 1, *promotion* is the process of telling people about a product and the company that offers it. The following are all examples of promotion: a sales associate helping customers, TV commercials, billboards, direct mail, advertisements in newspapers and magazines, public service announcements, and corporate sponsorship of sporting events, 36-1.



36-1

One type of promotion is a sales associate helping a customer.



36-2

Promotion is part of the marketing mix. Promotion is also called marketing communication.



Reality Check

Describe a specific example of promotion that you have seen or heard recently. What was the purpose of that promotion?

promotion is **marketing communication**. Throughout this chapter and the following chapters, keep in mind that promotion is communication. Also keep in mind that the term *product* includes goods, services, and ideas.

Promotion Is Marketing Communication

Promotion is one of the Four Ps of the marketing mix, 36-2. Most people think of promotion as advertising and sales only. However, promotion is much more than that. Promotion can be broadly described as the communication from an organization to its customers, potential customers, and the public. Another term commonly used for

Goals of Promotion

The role of promotion is to help a business achieve its marketing goals. The basic marketing goals of most businesses are to sell products and make a profit. If the business has a good image with the public, that may also help the business sell products and make a profit. Promotion helps a business reach these goals by communicating with potential customers, 36-3. As you learned in Chapter 34, communication informs, expresses, and persuades. Similarly, promotion informs, expresses, and persuades.



Photo by Dominic Ierardi, Greater Lowell Technical High School

36-3

Promotion helps a business reach its goals of selling products by communicating with customers. Communication occurs through sales associates and print, radio, TV, and the Internet.

Inform

Businesses want to keep customers informed about

- existing products
- new products
- new features on existing products
- how to use or assemble products
- safety issues that may affect the use of a product
- charities and cultural organizations the business supports
- events the business sponsors in the community

There is another important aspect of the general purpose of informing. It is to remind. Businesses know that if a product has been on the market for a while, customers may lose interest, forget, or be drawn to a competitor's product. Companies use promotion to continually remind you about their products. For example, snips of a previously aired commercial work as well as the original commercial to bring a product back to mind. Hearing a few seconds of a Coca-Cola jingle reminds us of how good it tastes or how much fun we had the last time we had a Coke. Promotion helps us remember.



Reality Check

Name a product that you would like to buy. Describe what you know about the product and the business that manufactures or sells it. How did you get this information?

Express

Promotional messages use words, pictures, color, motion, and music to *express* and *entertain*. These messages can invigorate or repel, bring laughter or tears, even amaze or baffle. The addition of emotion or entertainment makes promotional messages more vivid and more likely to be remembered. TV and radio commercials are often built around emotion and entertainment.

Behind the entertainment, there is a message designed to create interest and stimulate the demand for the product. However, the promotional message should not be too entertaining or too emotional. Potential customers might remember only the emotion or entertainment, and not the product.

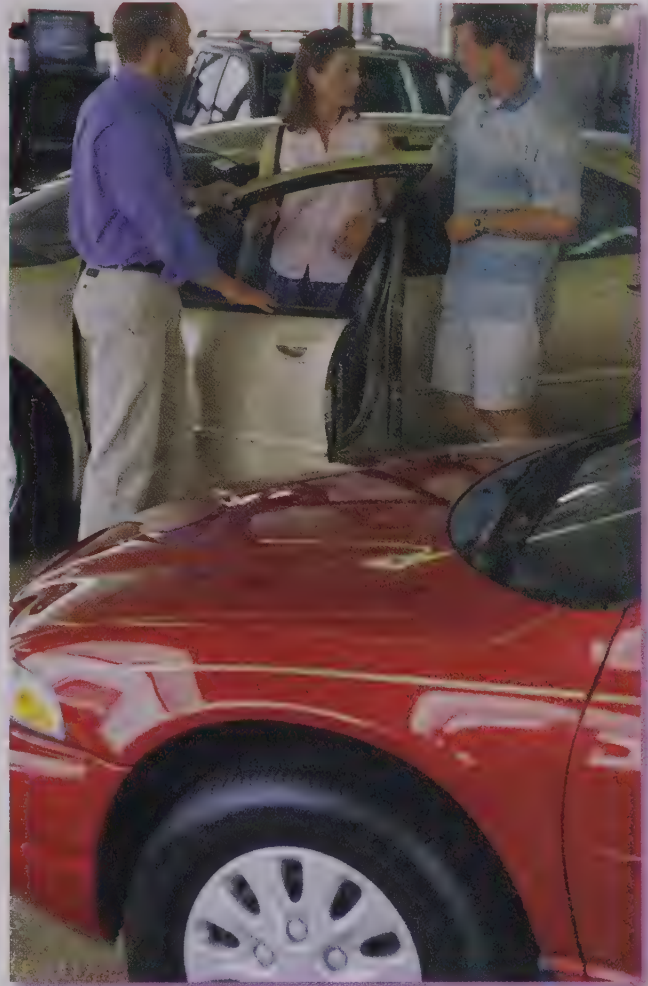
Reality Check

Describe a promotional message that was memorable. What made this message memorable? What feelings did the message evoke in you? What product did it promote? Did the message make you want to buy the product? Did you buy the product?

Persuade

Persuasion is the use of logic, argument, or pleading to get another person to agree with you or to act in a certain way. The ultimate goal of promotion is to persuade potential customers to buy the product. Promotional messages persuade people to buy through the use of information, reminders, expression, and entertainment. Persuasion appears in all types of promotion. Promotional messages are designed to motivate people to buy, 36-4. A promotional message might persuade you to buy a product, if the message did the following:

- informed you about how the product meets your needs
- provided a reminder that was timely
- used expressive elements that made an impression and left you with a good feeling about the company and its product



36-4

Part of promotion is persuasion. Many promotional messages are designed to persuade or motivate people to buy.

Reality Check

Describe a promotional message that you have seen or heard recently. Did the message inform, express, and persuade? Explain your answer. Did you buy the product? Explain why or why not.

The Communication Process and Promotion

Promotion is communication. Promotion takes place through the communication process, 36-5. In promotion, the marketer is the sender. The target market or the public is the receiver. Marketers must encode the promotional message so that the target market can decode and understand it. An important part of developing the promotional message is choosing the best medium for the message. Choices for



36-5

The communication process is the same in promotion as in all communication. The marketer is the sender, and the target market is the receiver.

mediums include people (salespeople), TV, radio, newspapers, magazines, mail, billboards, fliers, and the Internet. Noise can interfere with the promotion communication process.

Noise

The promotional message must be transmitted. Noise can interfere with promotional messages, just the same way noise can interfere with any communication. Promotional messages can encounter physical noise, technical problems, external distractions, and internal distractions.

Many promotional messages are received at home, where distractions can come from many sources. One of the major sources of noise is the sheer number of promotional messages that each person is exposed to every day. Estimates of the number of promotional messages each person encounters range from 500 to thousands every day.

Marketers cannot control the environment where marketing messages are received. However, they have two methods to try to counteract these distractions. One

is to repeat the same promotional message many times, often using several mediums. Another is to make the message stand out from all the others.

Feedback

Once the message reaches the receivers (target market), they decode, understand, and act on (or ignore) the message. Marketers need to know whether the promotional message was effective. What is effective promotion? **Effective promotion**, like effective communication, is promotion that achieves its goals. The most obvious sign of effective promotion is an increase in sales. Promotion can also be effective if it increases product awareness or improves the image of the company, but these results are harder to measure.

Marketers need feedback to determine whether a promotional message was effective. Therefore marketers develop methods to obtain customer feedback. They monitor sales and perform marketing research. If the message is found to be ineffective, the marketer might adapt the message and try again.



Reality Check

Think of a promotional message you have received recently. Identify the marketer (sender), medium, target market (receiver), and message. Also describe any noise that you observed. Was the message effective?

Types of Promotion

There are many ways to categorize promotion. Three common ways are based on (1) the target market, (2) what is being promoted, or (3) the elements of promotion.

Target Market: Business or Consumers

The target market for promotion can be either other businesses or consumers. *Business-to-business (B2B) promotion* is the promotion that occurs when a business promotes its products to another business. In other words, the target markets of B2B promotion are businesses, not consumers. For example, in Chapter 26, you learned about channels of distribution and channel members. B2B promotion is done when one channel member promotes its products to the next business in the channel. For example, wholesalers often promote their goods to retailers.

Business-to-consumer (B2C) promotion is promotion that occurs when a business promotes its products directly to the consumer market. Most of the promotion that you see and hear in the media is B2C promotion.

What: Product or Institution

Organizations can promote one of two aspects of the business: the products of the organization or the organization itself. **Product promotion** is marketing communication that focuses on the product

and selling the product. Promotions for breakfast cereals, a band concert, and safety messages are product promotions.

Institutional promotion is communication that focuses on the image of the organization. Products are not mentioned in institutional promotion. Institutional promotion is an indirect way of selling products. The goal of institutional promotion is to give you positive feelings about the organization. The marketers hope that by showing you how wonderful their organization is, you will have a good feeling about the organization. Then, when you see a product promotion, you might be more likely to pay attention to it. One example of institutional promotion is the greeter at Wal-Mart, who says, "Welcome to Wal-Mart. Hope you enjoy shopping here today."

The Four Elements of Promotion

There are four elements of promotion: (1) personal selling, (2) advertising, (3) sales promotion, and (4) public relations. These elements of promotion can be used for all the preceding types of promotion. B2B and B2C promotions use all four elements. Institutional and product promotion use all four elements. These elements fall into two categories: personal promotion and nonpersonal promotion. Personal promotion occurs directly between the marketer and a customer. Personal selling is the only form of personal promotion. Nonpersonal promotion consists of sending the same message to everyone in the target market. Nonpersonal promotion is usually carried by the mass media. Advertising, sales promotion, and public relations are nonpersonal forms of promotion.

Personal Promotion

In **personal promotion**, the marketer and the customer communicate in person. *Personal selling* is the only element of

promotion in this category. The main feature of personal selling is that the seller can customize the message, based on the immediate response (feedback) from the customer, 36-6.

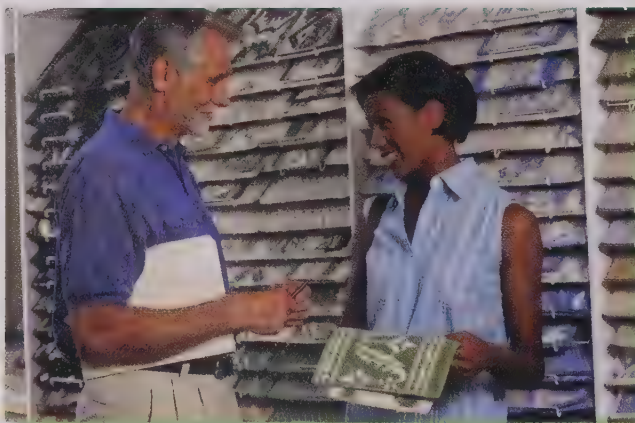
A typical example of personal selling occurs on the floor of a retail store. A sales associate approaches a potential customer and offers help. Personal selling also occurs when telemarketers contact customers over the phone. The Internet can also be used for personal selling, if the customer and the seller interact in real time.

So far, the examples have been for business-to-consumer sales. However, a great deal of personal selling occurs in business-to-business sales. Many B2B businesses have sales representatives who call on customers. You will learn more about personal selling in Part 8.



Reality Check

Think of a personal selling situation in which you were the customer. How did the salesperson customize the message for you?



36-6

The main feature of personal selling is that the salesperson can customize the message to meet the needs of the specific customer, based on immediate feedback.

Nonpersonal Promotion

Nonpersonal promotion is promotion that communicates the same message to all potential customers. There is no interaction between the marketer and the target market at the time the message is sent and received. Mass communication and the mass media are used to send nonpersonal promotion. The nonpersonal elements of promotion are (1) advertising, (2) sales promotion, and (3) public relations.

Advertising

Advertising is nonpersonal promotion paid for by an identified sponsor. Advertising includes print advertisements in newspapers and magazines, commercials broadcast over radio and TV, Internet ads, outdoor advertising on billboards, and transit advertising on buses and subway cars. Advertising also includes direct marketing, which is also known as direct mail. Direct marketing is advertising sent through the U.S. Postal Service. Catalogs are a common form of direct marketing, 36-7. Direct marketing can also be done over the Internet. What is the same about these different forms of advertising? In each form of advertising, the same message is sent to all receivers. Both B2B and B2C businesses use advertising. You will learn more about advertising in Chapter 38.



Reality Check

Describe three advertisements that you have seen recently. Who is the target market for each ad? Explain why each ad is an example of nonpersonal promotion.



Courtesy of Lillian Vernon

36-7

Catalogs are a form of advertising called direct marketing. This is a catalog cover from direct marketer Lillian Vernon.

Sales Promotion

Sales promotion consists of marketing activities designed to entice customers to buy a company's products. A wide variety of activities are considered sales promotion. Coupons, contests, free samples, and gift-inside are all examples of sales promotion. All have the goal of getting the customer to buy the product. Most sales promotions are short-term activities. Most are designed to be used with other forms of promotion to support the overall goals of the promotion plan. There are two categories of sales promotion: B2C sales promotion and B2B sales promotion.

Business-to-Consumer Sales Promotion

Many B2C sales promotion activities are designed to create excitement about the product or the company that offers it. Think of the excitement created by state lotteries, especially when the jackpot gets large. That excitement causes more people to buy lottery tickets. B2C sales promotions can be organized into seven groups:

- **Visual Merchandising.** One of the most important forms of sales promotion is visual merchandising. *Visual merchandising* is the physical presentation of merchandise and the design of a place of business for the purpose of increasing sales. Visual merchandising includes displays in store windows and throughout a store. The purpose of visual merchandising is to attract the customer to the merchandise. Visual merchandising is also used to create the atmosphere for service businesses, such as doctors' offices and restaurants. You will learn more about visual merchandising in Chapter 40.
 - **Coupons and Rebates.** Coupons and rebates are methods of reducing the cost of a product to customers. A **coupon** is a printed piece of paper that indicates the product and the amount of price reduction when the coupon is used. Coupons offer the customer a cash discount on the price of the product at the time of purchase. Coupons are widely used. You can find coupons in newspapers, magazines, and in-store displays. Packets and fliers of coupons are often sent by the U.S. Postal Service. Coupons can also be printed from the Internet.
- A **rebate** is the return of a portion of the money paid for a purchase. After you purchase the item, the store or the manufacturer will refund some

of the payment price, usually after the purchaser fills out a form and provides proof of purchase. Automobile dealers often offer rebates. In their advertisements, they often use the term *cash back*.

- **Free Samples.** You walk into a bakery, and you are offered a cookie to taste. You walk into a department store, and someone offers to spritz the latest perfume on you. You pick up your mail, and a free bottle of a new dish detergent is waiting for you. Free samples, also called trial samples, are small amounts of the product that are given to the customer at no charge. Free samples give the customer a chance to try the product before buying it, 36-8. The marketer hopes that you will be so impressed with the delicious cookie, the fragrant perfume, or your sparkling dishes, that you will buy the product immediately.
- **Premiums.** A **premium** is an item given to the customer for free or at a reduced price along with the purchase of a product. A premium acts as an incentive

by offering customers a prize or reward if they buy the product. The creators of Cracker Jack were one of the first to use this concept. Since 1912, Cracker Jack has provided a prize inside every package. Today, marketers from electronics retailers to fast-food corporations to automobile dealers use premiums.

- **Contests and Sweepstakes.** Contests and sweepstakes are competitions that offer participants a chance to win a prize. Contests usually require the participant to do something, such as answer a question or write an essay. A sweepstakes is a game of chance. Sometimes an item must be purchased to participate in the contest or sweepstakes. For example, to participate in a state lottery, you must buy a lottery ticket. Many contests and sweepstakes require no purchase to participate. Some organizations combine contests and sweepstakes.

For example, the NBA has sponsored "Shoot for Loot" sweepstakes/contests. First participants enter their names in a sweepstakes to win free tickets to an NBA game. Each ticket winner then has the opportunity to enter a contest. The contest is to successfully shoot a basketball through a hoop a number of times. The winner gets a grand prize, which may be as large as \$100,000.

- **Promotional Tie-In.** A *promotional tie-in* is promotion involving the products of two or more companies. McDonald's Restaurants are well known for their promotional tie-ins with children's movies. McDonald's arranges with the movie company to give away free toys that represent characters in the movie. For example, they gave away eight toys in the form of characters from the Disney movie *Finding Nemo*. This promotion was a month long at the time the movie opened. It drew customers into the restaurants and created excitement about the movie.



Photo courtesy of IGA, Inc.

36-8

Many grocery stores offer free samples, so that you will discover that you like the product and will buy it.

- **Product Placement.** In a *product placement*, the advertiser works with a media company to place one of its products in a movie or TV show, so that the brand name can clearly be seen. The product is not the focus; its presence in the movie or TV show should seem natural. Product placement gives brands visibility and makes them seem popular and desirable. For example, Pepsi products appear in the movie *Back to the Future*. Figure 36-9 summarizes the types of sales promotion.

Business-to-Business Sales Promotion

B2B sales promotion is sales promotion that occurs between members of a distribution channel. Another term for B2B sales promotion is *trade promotion*. The purpose of trade promotions is to get members of the distribution channel to buy the product, and then sell it to the next member of the channel. Manufacturers use trade promotions to encourage wholesalers and retailers to buy their products. Wholesalers use trade promotions to get retailers to buy their products. Manufacturers and wholesalers use trade promotions to get wholesalers and retailers to sell more of their product. Many companies spend more on trade sales promotion than on consumer sales promotion. Many of the techniques of B2C sales promotion are used in B2B sales promotion. There are four general types of trade sales promotion:



Reality Check

For each of the seven types of sales promotion, give an example from your experience.

Business-to-Consumer Sales Promotion

Type of Sales Promotion	Description	Example
Visual merchandising	Display of merchandise	Retail store display windows
Coupons and rebates	Methods of reducing the cost of a product	Cents-off coupons that appear in newspapers; rebate offered by an automobile dealer
Free samples	Sample of the product provided at no charge to customer	Free visit to a health club
Premiums	Item given free or at a reduced price along with purchase of a product	Toy inside a box of cereal
Contests and sweepstakes	A competition in which one or a select few win a prize	State lotteries
Promotional tie-in	Two companies promote their products together	McDonald's Happy Meals with toys based on Disney movies
Product placement	Advertiser arranges for its products to appear in movies and TV shows	Pepsi products in the film <i>Back to the Future</i>

36-9

Sales promotion consists of marketing activities designed to entice the consumer to buy the product.

■ **Trade Shows.** A **trade show** is an exhibit of products of interest to a specific industry. Trade shows are usually sponsored by trade, industry, or professional associations. Manufacturers and wholesalers that serve the industry are invited to a trade show to display and demonstrate their products. For example, the National Restaurant Association holds an annual Restaurant Hotel-Motel Show. Nearly 2,000 businesses that supply restaurants, hotels, and motels attend the show. These businesses set up exhibits that display their products, 36-10. At the trade show, marketers use visual merchandising, free samples, premiums, contests and sweepstakes, and specialty items to attract customers'

attention and sell their products. (Specialty items can be considered sales promotion or advertising. See Chapter 38 for more on specialty media.)

■ **Trade Allowances.** A **trade allowance** is a discount or money paid to the intermediary who buys the product. There are several types of trade allowances. A *buying allowance* is a discount given to retailers for the goods purchased. A *promotional allowance* is money that the manufacturer pays to the reseller to cover the costs of promotion done by the reseller. A *slotting allowance* is money that the manufacturer or wholesaler pays to the retailer to cover the costs of carrying a new product.

**36-10**

Photo courtesy of the National Restaurant Association

The exhibit floor of the Annual Restaurant Hotel-Motel trade show is lined with booths displaying products of interest to restaurants and hotels.

- **Point-of-Purchase Advertising.** A promotional display located at the place where the customer makes the buying decision is called *point-of-purchase advertising*. These displays are often located at the ends of aisles or by the cash register. Manufacturers often provide the complete point-of-purchase advertising display to the retailer, 36-11.
- **Sales Incentives.** *Sales incentives* consist of contests and rewards used by manufacturers and other channel members to motivate wholesalers and

retailers to sell more of the product. For example, a manufacturer might sponsor a contest that provides a luxurious vacation to the salesperson who sells the largest number of the manufacturer's product.

Public Relations

Public relations consists of promotional activities designed to create goodwill between a company and the public. Public relations is mostly institutional promotion. Creating a positive image of the company and its products often influences people to buy products from the company. Public relations also handles the philanthropic (charitable) activities of the business. As you learned in Chapter 5, philanthropy is an important part of business social responsibility and business success.

There are two types of public relations: proactive and reactive. *Proactive public relations* consists of communications initiated within the company for the purpose of image building. Proactive public relations includes providing information on new products, developing and running charitable events, and sponsoring sporting and cultural events.

Reactive public relations consists of communications in response to negative events or damaging information that appears in the media. Reactive public relations is used when the media covers an accident caused by a company's product, for example SUV rollover accidents.

Public relations specialists use all the elements of promotion to perform their tasks, but their major methods are nonpersonal. That is, they create a message that is communicated to the receivers without interaction between the sender and receiver at the time of the communication. The main functions of public relations is getting publicity and developing philanthropic activities.



Photo courtesy of IGA, Inc.

36-11

As part of business-to-business sales promotion, the manufacturer might provide a point-of-purchase display along with the products. This display is at the end of an aisle in a grocery store.

Publicity

Publicity is information about a company and its products that appears in the media. Publicity is different from advertising in that the company does not pay the media to carry the message. In advertising, the company develops the exact message it wants, and then pays the media to carry that message. Public relations specialists send information to the media, in hopes that the media will print or broadcast a story containing the information. The company has no control over whether the story is reported or how it is reported. However, if the story is reported, the results can be very positive. Customers usually think that stories reported in the media are more objective than advertising.

The main tools of publicity are the press release, the press kit, and the press conference. A *press release* is a story about the company that the public relations specialist writes and sends to the media. The press release should be as exciting as possible to attract interest. It should also contain information that is considered newsworthy. It should also contain the name and contact information for a person at the company who can provide more information. Recent press releases can often be found on a company's Web site.

A *press kit* consists of information about the company and its products. A press kit is usually packaged in a folder and often contains brochures about the company, press releases, and photographs for the media to use. A *press conference* is a meeting called by a business to which the media is invited. The purpose of the press conference is to present an important event or announcement, create excitement about the event or announcement, and give the media an opportunity to learn about the event or announcement.

Philanthropy

As you learned in Chapter 5, philanthropy consists of actions that improve human welfare and spread goodwill. Many businesses choose a charity, sport, or cultural activity to support. The public relations specialist makes sure that people know about these good works. The public relations specialist uses press releases, press kits, and press conferences to gain publicity for the company's philanthropic activities. When potential customers hear about these activities, they feel good about the company that sponsored them. These potential customers are more likely to buy products from a company that supports causes that they care about.



Reality Check

Name a company that supports a charity, sport, or cultural activity. Describe the charity, sport, or cultural activity. Why do you think the company chose this activity to support?

The Marketing Concept and Promotion

Promotion has been criticized for manipulating people into buying things that they do not really want or need. Deceptive advertising not only makes customers angry, it is also illegal. Marketers that follow the marketing concept do not run into these sorts of problems with their promotions.

In Chapter 3, you learned that the marketing concept is an approach to business that says that the way to make a profit

is to focus on customer satisfaction. The marketing concept helps marketers focus on the customer satisfaction. If a company focuses on customer satisfaction, then it is less likely to use manipulative or deceptive promotions.

The reputation of a company is created, maintained, or destroyed by how sincerely the marketing concept is followed. In other words, promotion that is effective persuades customers to buy, but only the products that will actually satisfy their wants and needs. Effective promotional activities should be designed with the needs and wants of

customers in mind. The goal is to make a profit by selling products that customers actually want and need.



Reality Check

Have you encountered any salespeople or advertisements that have been manipulative or made false claims? Describe the situation. How do you feel about the company that sponsored the ad or for whom the salesperson worked?

CHAPTER 36 REVIEW

Remember This

- The role of promotion is to help a business achieve its marketing goals.
 - Three goals of promotion are to (1) inform, (2) express, and (3) persuade.
 - Promotion takes place through the communication process.
 - Product promotion focuses on selling the product; institutional promotion focuses on the image of the organization that offers the product.
 - In personal promotion, the marketer and the customer communicate in person; and the marketer can immediately customize the message. In nonpersonal promotion, the same message is communicated to the target market, usually through the media.
 - The four elements of promotion are (1) personal selling, (2) advertising, (3) sales promotion, and (4) public relations.
 - The marketing concept helps marketers focus on the customer satisfaction. If a company focuses on customer satisfaction, then it is less likely to use manipulative or deceptive promotions.
5. What is persuasion?
 6. Promotion takes place through the communication process. In promotion, who or what has the roles of sender, message, and receiver?
 7. How can a marketer tell if a promotion was effective?
 8. Draw a diagram that shows how the communication process works in promotion.
 9. What is the difference between B2B promotion and B2C promotion?
 10. What is the difference between product promotion and institutional promotion?
 11. Describe each of the four elements of promotion.
 12. What is the difference between personal and nonpersonal promotion?
 13. What is the only form of personal promotion?
 14. List the three tools of publicity.
 15. Identify the advantages and disadvantages of advertising and publicity.

Review Concepts

1. How is communication connected with promotion?
2. What is the role of promotion?
3. List seven things about which a business wants to inform customers.
4. Why does some promotion express emotions or entertain?

Think Critically

1. How might a promotion that is designed to persuade differ from one designed to inform?
2. Imagine that you are opening a new store in a strip mall. What would you do to attract attention to your store? What would you do to make your store stand out from the others?

3. The feedback part of the communication cycle is important in marketing and promotions. How can marketers get feedback from customers?
4. Imagine that you are the manufacturer of a new shampoo. What kinds of B2C sales promotions would you use? List at least three and explain why you would use them.
5. What is the difference between advertising and publicity?
6. Why is the marketing concept important in promotion?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out if the business has a public relations department or person. If not, do they use the services of a public relations firm? What does the public relations person, department, or firm do for the business? What kinds of philanthropic activities does the business participate in?
2. Watch a television commercial and analyze the message to see if the commercial was developed to inform, express, or persuade customers. What product was the commercial advertising? What got your attention? Would you purchase the product?
3. Look in a newspaper for an article that provides publicity for a business or a product. Name the business and describe the information that the article provided. Why is the article publicity?

Is it good publicity or bad publicity? Explain your answer.

Explore Careers

1. Explore a career in public relations by reading the article "Public Relations Specialists" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Describe the kinds of work that a public relations specialist does. Visit the Web site of the Public Relations Society of America (www.prsa.org). How could being a member of this organization help you in your career as a public relations specialist? Click on the "Jobs Listing" link. Browse the available jobs. If only a few jobs are listed, visit a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, and search for public relations jobs. Choose one. What will the person in this job do? What are the requirements? Would you like this job? Explain why or why not.
2. Teachers use many of the same communications skills as marketers. In addition, many marketers get their start in marketing through high school marketing courses. Based on your experience as a student, write a description of a teacher's job. Then read the article "Teachers—Preschool, Kindergarten, Elementary, Middle, and Secondary" in the *Occupational Outlook Handbook*. List anything new that you have learned about the job of teaching. Revise your job description to include the information from the article. For

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more information about becoming a teacher, visit the Web site of the National Teacher Recruitment Clearinghouse (www.recruitingteachers.org). Interesting links on this site include "Why teach?" and "Become a Teacher." Also, use the job search tool to find teaching jobs. For more information about teaching career subjects, visit the Web site of the Association for Career and Technical Education (www.acteonline.org). What is the purpose of this organization? Would you like to be a teacher? If yes, explain why you would like to be a teacher and tell which subject you would like to teach. If not, explain why not.

Connect to the Internet

1. Visit the Web site of the Institute of Sales Promotion (www.isp.org.uk). In what country and for which country is this Web site? How can you tell? Where is this country located? Even though you do not live in this country, is there any information of interest to you? How could an American marketer use the information on this Web site?
2. Visit the Web site of a major corporation. Usually, there is a section of the Web site that contains recent press releases. If you are on the consumer part of the Web site, you might have to find the corporate Web site. For example, visit Ford's Web site (www.ford.com). Then click on the link "Company." You will be taken to a page with a great deal of news. There is also a link on the page, "Press Releases." Click on that link, which will take you to a list of recent press releases. Skim the list of press releases. Choose one press release, print it, and read it. Is that press release proactive or reactive? Describe the major information in the release. Why do you think the company wrote the release? How do you feel about the company, now that you know this information? Search the Internet and newspapers to see if any of the media picked up the press release. If possible, make a copy of the article in the media. How is it similar or different from the press release?

Marketing Terms

promotional mix

pull strategy

push strategy

buzz marketing

sponsorship

customer relationship management (CRM)

promotional campaign

direct-response campaign

After studying this chapter, you will be able to

- explain the concept of promotional mix.
- describe the AIDA promotional strategy.
- differentiate between a push strategy and a pull strategy.
- explain how positioning can be used as a promotional strategy.
- explain why a company would want to sponsor a sporting event, cultural performance, or charity.

When you think of the word “mix,” you might envision the variety of songs a DJ puts together for a dance. Each song is an ingredient of the total mix. The songs are selected to appeal to people who will be at the dance. For example, for a Homecoming Dance, you would expect the DJ to select songs high school students like. The mix would probably consist of the most current hits plus an assortment of songs from the past. The selection of songs determines the success of the dance. A promotional mix is created in much the same way, 37-1.

What Is a Promotional Mix?

Imagine that a marketer is in charge of preparing the promotion for a new product. Like the DJ, the marketer must select the appropriate ingredients that will best reach the target market. For the marketer,



37-1

A marketer is like a DJ. The DJ mixes different songs to make a successful party. The marketer mixes the elements of promotion to make a successful promotional mix.

instead of songs, the ingredients are the four elements of promotion. As you learned in Chapter 36, those four elements are (1) personal selling, (2) advertising, (3) sales promotion, and (4) public relations. The combination of promotional elements used in a promotion is called the **promotional mix**. The promotional mix can include just one element or any combination of elements. The marketer chooses the elements in the promotional mix to best reach the target market.

Each of the four elements of a promotional mix affects the target market differently. Some organizations have found that a combination of public relations and advertising activities creates the most successful promotional mix. Some businesses, especially B2B businesses, find that personal selling works best for them. Other businesses find that using all four elements works best for them.

The choice of elements affects the success of the promotion, just as the choice of songs affects the success of a dance. Choosing the proper elements for a promotional mix is critical to the success of the promotion and

the business. The promotional mix is used in a variety of ways to develop promotional strategies and campaigns.



Reality Check

Think of a product that has been promoted using more than one element of the promotional mix. Name the product and describe all the elements of the promotional mix that you have seen or heard.

AIDA: The Basic Promotional Strategy

How do promotional efforts work? They work by following the customer's decision process. In Chapter 17, you learned that customers go through a six-step decision process: (1) awareness, (2) information search, (3) evaluation of options, (4) decision to buy, (5) purchase, and (6) evaluation. At each step of the decision process, the customer either needs information or is open to suggestions. Promotion, through the elements of the promotional mix, provides the information or suggestions.

The basic promotional strategy is often referred to as AIDA. These letters stand for each of the four steps in the strategy: (1) attention, (2) interest, (3) desire, and (4) action. A fifth step, evaluation, is not actually part of the strategy but is very valuable, 37-2.

Attention

The first step is to attract the customer's attention. Before a promotion can have any effect, it must have the customer's attention, 37-3. Marketers expend a great deal of effort to attract customers' attention. Marketers can attract attention through words (verbal communication) and through the medium (nonverbal communication).

The Consumer Decision Process and the AIDA Promotional Strategy

The Consumer Decision Process	AIDA Promotional Strategy
Step 1. Awareness of need or problem	Step 1. Attract A ttention
Step 2. Information search	Step 2. Activate I nterest and needs by providing information
Step 3. Evaluation of options	Step 3. Create D esire and demand
Step 4. Decision to buy	Step 4. Motivate to A ction
Step 5. Purchase	
Step 6. Post-purchase evaluation	Step 5. Evaluate customer satisfaction

37-2

The AIDA promotional strategy provides information or motivation for customers at each stage of the decision process.



37-3

The first step in a promotional strategy is to attract the customer's attention to the product.

There are several techniques for attracting attention through words in advertising. One way is to ask a question that intrigues the receiver: "Does she... or doesn't she?" for Clairol Hair Color. Another way is to offer something for free. A third way is to say something shocking or startling: "Take it off, take it all off!" for Noxzema Shaving Cream. A fourth way is to flatter the receiver: "You deserve a break today" for McDonald's.

A medium is often chosen for its ability to attract attention. Color, design, photographs, and illustrations attract attention to ads on paper and signs, 37-4. On the radio, unusual sounds can be used. On TV, motion, light, and sound can be used. On Internet banner ads, motion (that is, animation) is often used to attract attention.

Visual merchandising, that is, the way goods are displayed, is a major way retailers attract attention to their goods and their stores. Visual merchandising attracted the customers in Figure 37-3 to walk over to the store's window display. Shiny materials and spotlights are often used to attract attention. Size is another nonverbal element. A very popular medium is the huge (several stories tall) balloon, either mounted on the roof or in front of the business. The balloon usually is brightly colored and has a simple slogan,



Photo by Dominic Ierardi, Greater Lowell Technical High School

37-4

The bright colors on these signs will attract attention.

such as “Grand Opening.” It has become very popular because it is effective in getting attention.

Repetition is another way to attract attention. Customers seldom act immediately when they first see an advertisement. It may take seeing or hearing a promotional message many, many times before the customer’s attention is gained.



Reality Check

Think of an advertisement that attracted your attention. Describe how the ad got your attention.

Interest

Now that you have the potential customer’s attention, what is next? You must activate interest in your product. Promotions achieve this by providing information. A print ad might provide a description of the product. A retail store might provide product demonstrations, fashion shows, and displays.

A very effective technique in this step is to activate a need in the customer. Many marketers refer to Maslow’s hierarchy of needs when developing this stage of a promotional message. Based on Maslow’s hierarchy of needs, marketers design promotions that appeal to people’s needs for belonging, friendship, popularity, or prestige. The Listerine mouthwash ads are the classic examples of this type of approach. In the 1920s, Gerard Lambert was the marketer for Listerine. He realized that if he could convince people that bad breath was a major social problem, he could probably sell more Listerine. Lambert launched an advertising campaign that made people aware of the problem of bad breath. He introduced the term “halitosis,” which means bad breath but sounds worse. He emphasized that halitosis would lead to social rejection. The ads activated the need in customers for a solution to this awful problem of halitosis.

Desire

Now that the potential customer knows that he or she has a need, the promotion must create desire and demand. The product can be offered as a way to satisfy the need. The words of the promotional message can show how the product will satisfy the need or solve the problem. The cure for the devastating results of halitosis was, of course, to use Listerine mouthwash morning, night, and in between. When customers desire a product, they will create demand for the product. As a result of the ad campaign, sales of Listerine increased from \$115,000 in 1922 to over \$8 million in 1929.

Sales promotions can also be used to generate desire and demand. Free samples, coupons, and rebates encourage customers to try the product. In-store demonstrations and displays can also create desire and demand.

In personal selling, the sales representative tries to create desire and demand by encouraging the potential

customer to try the product. Clothing retailers provide dressing rooms for customers to try on clothing. Seeing how they look in the latest fashions often increases the customers' desire to buy, 37-5. Car salespeople want you to test drive the car to give you a sense of ownership and to increase your desire for the car.

An important part of creating desire is building credibility for the product. *Credibility* is the belief that the product will meet the customer's needs or solve a problem. Part of the role of promotion is to establish this credibility. For example, in advertisements for medical products, the speaker is often dressed as a doctor.

Action

The ultimate goal of promotion is to get the customer to take action, that is, to buy your product. Imagine that the promotion

has been successful. You have created desire and demand in your target market. What motivates the customer to action?

Some customers will be motivated to action just from reading an ad, seeing a commercial, or viewing a display. However, many customers need more to motivate them. Marketers often work in messages that explicitly urge the customer to buy. Words to motivate action are called *call to action*. Examples of calls to action include "Call now to purchase this item" and "Buy now while supply lasts." Some calls to action seem cryptic but are clear to the target market; for example, "Do the Dew" tells customers to buy and drink Mountain Dew.

In personal selling, the action step is referred to as the *close*. Salespeople are trained in a variety of techniques to close a sale, 37-6. You will learn about these techniques in Chapter 45.

**37-5**

Clothing retailers encourage customers to try on clothing. Seeing how good they look often motivates customers to buy the product.

**37-6**

Salespeople learn ways to get the customer to move from the "just looking" phase to the buying phase.



Reality Check

Describe two calls for action that you have observed. Did they cause you to buy the product?

Evaluation

Evaluation is a critical part of developing effective promotional strategies. During the evaluation step, marketers gather feedback from customers. The feedback is then analyzed to determine whether customers were satisfied.

Some businesses try to determine satisfaction immediately. Salespeople will ask the customer questions at the close of the sale or give them a short comment card to fill out before leaving. Others make follow-up phone calls or send thank-you letters. Often, comment cards and buyer evaluation surveys are sent out immediately after an item is purchased, especially for expensive products. Businesses use the information gathered to improve their overall promotional campaign and products.

Promotional Strategies

Promotional goals are used in developing promotional strategies. Promotional goals state *what* the company wants to do. For example, a retailer may want to increase sales dollars. A nonprofit organization may want to increase awareness of its charitable works and increase donations. Promotional strategy describes *how* the company will do it. The promotional strategy also helps a company spend wisely the dollars it has budgeted for promotion. Commonly used strategies include (1) pull strategy, (2) push strategy, (3) positioning, (4) sponsorship, and (5) buzz marketing.

Pull Strategy

In a **pull strategy**, promotional efforts are focused on the consumer, 37-7. The promotional elements used are primarily advertising. Very little, if any, personal selling is used with the pull strategy. The pull strategy is a B2C strategy, and its purpose is to create large consumer demand. Consumers see advertisements for the product. They then go to the store expecting to find the product. If the product is not available, they will ask for it. This customer demand will cause the retailer to contact the wholesaler or manufacturer to order more of the product. In this way, the consumer demand pulls the product through the distribution channel (supply chain). The consumer demands the product from the retailer, the retailer then demands the product from the wholesaler, and then the



37-7

The pull strategy focuses on the consumers. If a consumer cannot find an advertised product, he or she will ask the retailer for it. With enough consumer demand, the product will be pulled through the distribution channel to the retailer.

wholesaler demands the product from the manufacturer.

Push Strategy

In a **push strategy**, promotional efforts are focused on the wholesalers, distributors, and retailers. In other words, a company directs its promotion at the intermediaries in the channel of distribution, 37-8. With the push strategy, manufacturers promote their products to wholesalers and distributors and encourage them to add the products to their inventory. Wholesalers and distributors, in turn, promote these products to retailers and encourage them to stock their stores with the products. The push strategy is a B2B strategy, and personal selling is used. Other promotional efforts might include advertising in trade publications and B2B trade sales promotions, such as offering prizes to the intermediary that sells the most products.

Companies often use both strategies to better promote their products. After its initial introduction, manufacturers use both the pull strategy and the push strategy to

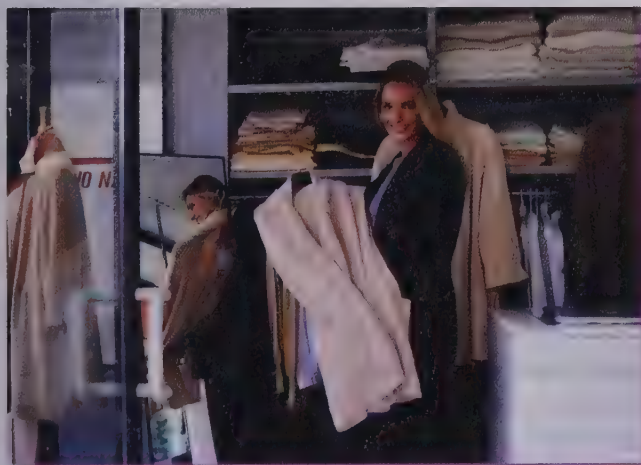
continue the promotion of their products. The combination push/pull strategy is used more often than either the push or pull strategy separately.

Positioning

As you learned in Chapter 22, *positioning* consists of the actions marketers take to create a certain image of a product in the minds of customers. The *actual* position of a product is in the mind of the consumer. A positioning strategy focuses on getting consumers to see the product as having a certain position with respect to its competitors.

Marketers decide what position they would like their product to have. The promotional strategy is then built around getting customers to see their product in this position. For example, a positioning strategy might focus on a single characteristic of the product, such as the computer store with the lowest prices in town. The promotional activities would focus on convincing consumers that the store has that position.

One of the best positions for a product to have is number one in its class or industry. Usually the number one is the product with the most sales. The number one in an industry is usually referred to as the market leader. When a company is not the market leader, it must find a position for itself. There are three choices: against, above, or with. A position “against” contrasts the product with the market leader. A position “above” chooses some aspect of the product that can be placed above the market leader. A position “with” chooses an aspect of the market leader and shows how the product is as good as the market leader. Positions “with” may also be the result of business partnerships, cobranding, or other types of business arrangements in which two products from different companies are sold together. Figure 37-9 shows examples of positioning strategies.



37-8

The push strategy focuses on promoting products to the members of the distribution channel. For example, a wholesaler might convince a retailer to buy a large supply of a fashion item.

Positioning Strategies

Product A	Positions Itself	With Respect to Product B	Using This Slogan
7 UP	AGAINST	Coca-Cola	"The Uncola"
Avis	AGAINST	Hertz	"We Try Harder"
VISA	AGAINST	American Express	"The Olympics Don't Take American Express"
Hallmark	ABOVE	All other greeting card companies	"When You Care Enough to Send the Very Best"
BMW	ABOVE	All other cars	"The Ultimate Driving Machine"
Suave Amplifying Professionals Shampoo	WITH	Matrix Amplify Shampoo	"Volumizes hair as well as Matrix Amplify"
Subway Restaurants	WITH	Atkins	Atkins®-Friendly Wraps Now Available at Subway Restaurants
Ford	WITH	Susan G. Komen Breast Cancer Foundation	Ford and Celebrities "Get Tied to the Cause"

37-9

Companies can choose positioning strategies for one particular company or several companies. Companies often position themselves "with" a charitable organization.

Sometimes the marketers do not know the position of their product. They might perform market research to determine their position. They then develop a promotional message around that position. For example, FedEx competes with the market leader, UPS, in package delivery. FedEx needed to find something it did better than UPS. Through marketing research, FedEx found an area where they had a distinct position. This distinct position was "leader in delivering small packages overnight." FedEx used this distinct position in its promotional messages. Their positioning was built around the slogan "When it absolutely, positively, has to be there overnight." Companies may change their positions and their slogans over time. UPS and FedEx have expanded their services. Another competitor, DHL, has begun competing in the domestic package delivery market.

Buzz Marketing

Marketers are always looking for new and innovative ways to communicate with consumers and influence buying decisions. Buzz marketing is one of those new strategies.

Buying decisions are often influenced by word-of-mouth publicity, that is, the informal conversation people have about their experience with a business and its products. Buzz is word-of-mouth publicity that creates excitement about a product, 37-10. It usually happens spontaneously when trendsetters start using and talking about a hot new product. These products might be a trendy new fashion, a restaurant, or even gossip about what certain celebrities are wearing. This is how buzz works. First, members of the in-crowd discover a new product that just hit the market. Then they share information



37-10

Buzz is word-of-mouth publicity that creates excitement about a product.

about this new product. Lots of others start buying and talking about this new product, which is now considered “hot.” They have just generated buzz. Buzz happens spontaneously, accidentally, and even unexpectedly.

Buzz marketing, on the other hand, is deliberate marketing activity. **Buzz marketing** is promotion designed to look as though it is coming from an unbiased stranger or a friend, instead of from a corporation. The Ford Motor Company decided not to use broadcast advertising to introduce their new subcompact, the Focus. Ford gave trendsetters around the country a Focus to drive for six months. All the trendsetters had to do was be seen with the car and give Focus-themed trinkets to anyone who expressed interest in the car.

Sony Ericsson also used buzz marketing to introduce the T68i cell phone. The marketers at Sony Ericsson hired 120 actors to play tourists at popular tourist attractions. Each actor had the cell phone with its add-on digital camera. The actors asked passersby to take their photos with the new photo phone.

The passersby got a chance to try the new product and get the marketing message from an attractive, enthusiastic stranger, not the corporation.

Sponsorship

A marketing strategy that is growing in popularity is sponsorship. **Sponsorship** is a marketing activity in which the sponsor pays (in part or in whole) for an activity such as a sporting event, a cultural performance, or a charity event. In exchange, the sponsor’s name becomes associated with that event. The sponsor gains exposure to the activity’s audience and the image that is associated with that activity.

For example, many corporations want to sponsor the Olympics. The largest supporters get to use the Olympic logo in their advertising. The Olympic logo symbolizes excellence, dedication, and integrity. By supporting the Olympics, these corporations show that they support excellence, dedication, and integrity.



Reality Check

Think of a sporting event that you have attended or watched on TV. List as many of the corporate sponsors as you can.

Customer Relationship Management

One of the newest strategies is customer relationship management. **Customer relationship management (CRM)** is the gathering and using of customer data to develop better communications with customers. Most CRM programs use special computer technology that makes it easier for the company to gather customer information from different parts of the company. CRM

provides information so that the company can provide better customer service that will, in turn, create customer satisfaction and loyalty, 37-11.

A company gets information about its customers in a variety of ways. For example, it has records of every sale from its bricks-and-mortar stores. It may also have customer data from a call center and sales representatives. It may have responses from direct mail campaigns and Internet advertising campaigns. Before CRM, none of these sources of information was connected. CRM enables the company to compile and analyze this information. CRM can generate profiles of specific customers and groups of customers. CRM can also track the quantity of each product purchased, and use that information to determine trends. It can also track types and numbers of customer complaints.

Analyzing these data gives the company insight into ways to provide new products and better services. The company can then implement changes in promotions that



37-11

Customer relationship management (CRM) uses computers to keep track of information about customers. This information can then be used to provide better products and better customer service.

benefit the customer and the company. The following are some of the benefits from CRM:

- developing more effective promotions
- providing better customer service
- attracting new customers
- making call centers more efficient
- offering the right products to the right customers
- helping sales staff make sales more efficiently

One of the first industries to implement a CRM strategy was banking. For example, CRM makes it easier to keep track of the age and life stage of each customer. Certain financial services are appropriate for customers of certain ages and life stages, 37-12. For example, a family with high school age children may need information about college loans. A customer approaching retirement age may need information about saving for retirement. CRM will make sure the right product information is sent to the right customers at exactly the right time. As a result, banks no longer spend tremendous amounts of advertising dollars for bulk mailings to all customers. Instead, they send targeted direct mail to specific customers with specific, identified needs.

Types of Promotional Campaigns

So far this chapter has presented the promotional mix and a number of promotional strategies. Promotion is most effective when several promotional activities are planned to complement each other.

A **promotional campaign** is a series of coordinated promotional activities designed to achieve a specific goal. For example, suppose a running store wants to enhance the image of the store and inform local runners of its location. The store might plan a promotional campaign consisting of the

**37-12**

Banks use CRM to learn about their customers. In this way, they can send only those promotions that are most likely to interest them. For example, a young family might be interested in home equity loans and saving for college.

following: sponsorship of a walk-a-thon for the Children's Hospital, registration flyers distributed to local schools and businesses, press releases to generate publicity in a newspaper, and spot announcements on the radio. There are three main approaches to developing a promotional campaign: image building, product differentiation, and direct response.

Image Building

The mental picture of what a customer believes about a product is referred to as the product's image. Most of us prefer one brand to another because of the images we have of

each product. What we buy says something about us. Our personality and lifestyle influence our purchases. We may buy or not buy a certain brand of product because it either fits with our personality and lifestyle or it does not.

Generally speaking, promotional campaigns aimed at enhancing a product's image do not focus on the product itself. These promotional campaigns are called image-building campaigns. The purpose of an image-building campaign is to emphasize a particular aspect of a product by focusing on creating an impression of the product, 37-13. Impressions attract customers' attention to the product. Some common



37-13

Many appliance manufacturers want to create an image of reliability.

impressions businesses want to create in the minds of consumers include reliability, status, sex appeal, masculinity, or femininity. For example, the image-building campaign for Maytag appliances creates the impression of reliability in the minds of consumers.



Reality Check

Think of an advertisement you have seen for a product. What is the impression you got from the ad? Do you think it is the impression the company's image-building campaign intended? Explain why or why not.

Product Differentiation

When a promotional campaign focuses on the difference between competing products, it intends to call the consumers' attention to aspects of its product that set it apart from its competitors. These promotional campaigns are called product differentiation campaigns. Some product differentiation campaigns focus on some dimension of the product that competing products do not offer. Others emphasize how using the product provides the solution to a consumer problem that competing products do not provide.

Product differentiation campaigns do not focus on price or image. These campaigns focus on attributes of the product being promoted. For example, Glad was the first to market Press'n Seal, a sealable plastic wrap made with AVEC/CON Griptex. No other plastic wrap company offered such a product. The revolutionary sealing feature provided Glad with a unique promotional opportunity around which a product differentiation campaign was created.

Direct Response

In a **direct-response campaign**, the seller communicates directly with the buyer and asks for an immediate response, but uses some method other than face-to-face selling. This type of promotional campaign has also been referred to as direct-response marketing. A major aspect of a direct-response campaign is that the results of the campaign can be measured.

Examples of measurable results from a direct-response campaign include the number of customer orders, the total amount of donations received from viewers, or the increase in the number of shoppers visiting a store. Think of an infomercial, a TV shopping channel, or a mailing inviting you to use a specific credit card, 37-14. What do all these promotional communications have

**37-14**

TV shopping channels and other direct-response promotions ask customers to respond immediately.

in common? They each ask the customer to respond immediately, usually by telephone. Examples of elements of a direct response campaign include catalog sales, direct mail, shopping channels, and certain types of TV commercials. Many direct marketers offer a toll-free number to encourage buyers to respond immediately.

Developing a Successful Campaign

There are eight key steps to follow when developing an advertising campaign.

1. **Identify Objectives.** Clearly define the goals of the advertising campaign. The objectives should be specific and measurable. The goals then need to be reviewed for feasibility. For example, a grocery store sets two objectives for its advertising campaign: (1) increase brand

awareness by 20 percent and (2) increase overall sales by 10 percent. After reviewing the previous five years of research data, it is determined that these objectives are attainable.

2. **Gather Data.** Gather as much data as you can about your target market. Make sure that you have selected the proper target market and the best products to advertise to that market.
3. **Select Strategies.** Select and develop appropriate strategies.
4. **Select Media.** Determine which media will most effectively reach the target market. For example, the grocery store decides to use a combination of advertising and sales promotion as its promotional mix. The selection of media includes newspaper, Internet, and some local television. Make sure that the messages in each medium reinforce each other and the overall promotional goals of the company.
5. **Develop Content and Graphics.** Effective campaigns consist of well-designed advertisements. Keep in mind that the ads should deliver content that will be of value to the customer. The ads must also grab attention.
6. **Place Advertising Messages.** Once the advertising messages are developed, they must be placed in the appropriate media. The media must be contacted for ad placement.
7. **Monitor Responses.** Keep track of the responses to the campaign. If necessary, hire a marketing research firm to help you.
8. **Evaluate Results.** Determine whether the results from the campaign were worth the investment. Make notes on what should be changed for the next campaign.

CHAPTER 37 REVIEW

Remember This

- A promotional mix is the combination of promotional elements used in a promotional activity.
- The AIDA promotional strategy has four steps: (1) attract attention, (2) activate interest by providing information, (3) create desire and demand, and (4) motivate action. A fifth step, evaluate customer satisfaction, is not part of the strategy but is very valuable.
- The push strategy focuses on businesses in the distribution channel; the pull strategy focuses on consumers.
- A positioning strategy focuses on getting customers to see a product in a certain position compared with competing products.
- When companies sponsor an event, they gain exposure to the activity's audience and the image that is associated with that activity.

Review Concepts

1. List the four elements of a promotional mix.
2. Does every promotional campaign have to have all four elements of the promotional mix?
3. What is the most important step of the basic promotional strategy? Why?
4. List the four steps in a basic promotional strategy.
5. What is a call to action and why is it important?
6. What happens during the evaluation step and why is it important?

7. What is the difference between a push strategy and a pull strategy?
8. What is the difference between buzz and buzz marketing?
9. Why do some corporations want to sponsor the Olympics?
10. List eight key steps in developing an advertising campaign.

Think Critically

1. Why did marketers model the promotional strategy on the consumer decision process?
2. Imagine that you were developing a radio commercial. How would you attract attention?
3. TV viewers often change channels when a commercial comes on. What would you do in a commercial to keep the audience's attention?
4. What is the value of repeating an advertisement many times?
5. Do all advertisements need a call to action? Give reasons for your answer.
6. How do marketers use Maslow's hierarchy in developing promotions?
7. Think of two companies that compete with each other. Do they position themselves with, above, or against? Give examples that support your answer.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out the promotional mix that the company uses. Do they ever use a push

strategy? Do they sponsor any charities, cultural, or community events?

2. Look through several newspapers or magazines. Find ads for stores or products that compete with each other. Choose a pair of ads. Compare the ads. How does the ad position each store or product in relationship to the other? Which ad was better at attracting your attention? Explain why and how. Does each ad have a call to action? What is it? Use the ads and your answer to these questions to create a poster.
3. Choose a local or national business. Contact the business or use library and Internet resources to find out what charities, sporting or cultural events, or community event the company sponsors. Find out why the business chose those organizations or events to sponsor.

Explore Careers

1. The printing industry is essential to promotion. Printing companies print newspapers and magazines and their ads, as well as catalogs, brochures, fliers, and many other items involved in marketing. The printing industry also hires marketers, sales workers, and customer service representatives. Read the article "Printing" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Write a brief description of the types of printing processes. List the technical, marketing, and financial occupations available in the printing industry. Choose one of these occupations. Search for a job in this occupation in your local newspaper want ads or visit a job search Web site such as www.ajb.dni.us (America's Job

Bank) or www.monster.com. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

2. A key worker in developing print advertising is the art director. Find the article "Artists and Related Workers" in the *Occupational Outlook Handbook*. Read the information on art directors. What do art directors do? Where do they work? Visit a job Web site and search for an art director job. Choose one that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Use a search engine to find information on "buzz marketing." Write a report that describes how buzz marketing developed and how it is being used today.
2. Visit the Web site of a consumer product or retailer. Can you tell what the promotional mix for this company is? Find evidence on the Web site for personal selling, advertising, sales promotion, and public relations. If no personal selling is done on the site, do they direct you to a store or provide a phone number where you can get personal sales assistance?
3. How are the Olympics marketed? Enter the keywords "Olympics, marketing" into a search engine. Which Olympics are currently being promoted? How many years or months is it until this Olympics takes place? What marketing activities are currently taking place? Which elements of the promotional mix are being used?

Marketing Terms

advertisement

presell

promotional advertising

institutional advertising

media

commercial

specialty media

online media

graphics

headline

copy

signature

typography

layout

After studying this chapter,
you will be able to

- explain the purpose of advertising.
- distinguish between promotional and institutional advertising.
- explain the difference between advertising and publicity.
- differentiate among the four types of advertising media.
- describe the four parts of a print advertisement.
- give examples of at least three techniques for writing effective headlines.
- describe the three components of graphics.

Did you see any advertising on your way to school today, 38-1? Here are some examples of advertising you may have seen or heard:

- jingle for a hardware store on the radio
- commercial for a department store on TV
- public service announcement poster on the bus against drug abuse
- billboard urging you to vote for a candidate
- huge balloon saying "Grand Opening" in front of a new auto dealership



Photo courtesy of IGA, Inc.

38-1

Advertising appears almost everywhere, even on the floor of your grocery store.

**Reality Check**

Describe at least three advertisements that you have seen today.

What Is Advertising?

As you learned in Chapter 36, advertising is a form of promotion. It is one of the elements in a promotional mix. *Advertising* is nonpersonal promotion for

a product that is paid for by an identified sponsor. The sponsor is usually identified in the advertising. Advertising is one of the main ways organizations communicate with potential customers and the public. An **advertisement** is a single advertising message paid for by an identified sponsor, often called an *ad*.

Advertising is a form of nonpersonal promotion, 38-2. In other words, in advertising, the same message is conveyed to all receivers. There is no interaction between the sender and receiver at the time an advertising message is sent or received.

The main purpose of advertising is to persuade receivers to buy a product or accept an idea. Advertising usually provides information that customers need about a product. For example, price, features, store location, hours, and sales (price reductions) are often contained in advertising.

The goal of advertising is to presell the product. To **presell** a product is to influence a customer positively toward a product or create demand for a product before the customer actually enters a selling situation (such as a retail store), 38-3. Advertising creates awareness of products and brands. It

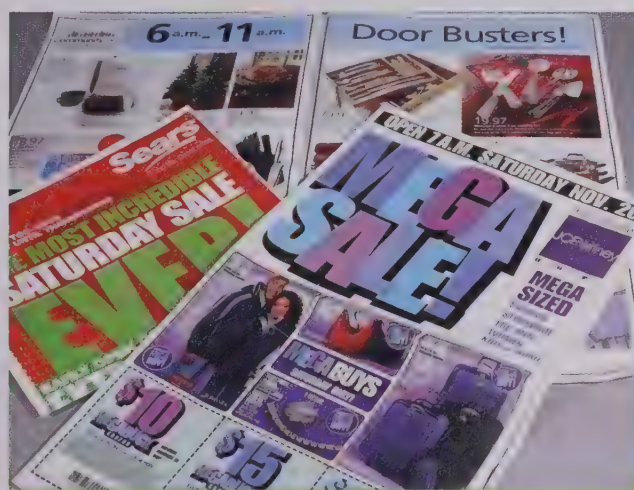


Photo by Jack Klasey

38-2

In advertising, the same message is delivered to all receivers.



Photo by Amy J. Berk

38-3

The tasty treats pictured in this sign are designed to make viewers want to enter the store to buy some.

gives the customer a reason to go to the store, phone, or Web site to buy the product.

Advertising is usually used with other elements of the promotional mix. For example, advertising is used with personal selling and visual merchandising in a retail store. The advertising alerts potential customers to a sale and persuades the customer to go to the store. Once in the store, the visual merchandising displays the product in an attractive way. The salesperson customizes the sales message and helps the customer make a good purchasing decision and buy the product.

Reality Check

Has advertising ever presold you on a product? If yes, describe the ad and how it affected you. If not, describe how an ad might presell a product to you.

Types of Advertising

There are several ways to categorize advertising. Three common ways are based on (1) the target market, (2) what is being promoted, or (3) geographic area.

Target Market: Business or Consumers

The target market for advertising can be either businesses or consumers. *Business-to-business (B2B) advertising* targets another business in the distribution channel (supply chain). B2B advertising is a type of B2B promotion.

Business-to-consumer (B2C) advertising targets the consumer market. Most of the advertising that you see and hear is B2C advertising. The methods and techniques of advertising are the same, whether the market is businesses or consumers. B2C advertising is a type of B2C promotion.

What: Product or Institution

An organization can advertise either its products or the organization itself.

Promotional advertising focuses on the products and their benefits. It is also called *product advertising* and is part of the general category of product promotion. Promotional advertising is designed to increase the sales of products. Most of the advertising you see is promotional advertising.

Institutional advertising is advertising that is intended to generate goodwill toward the company and to create a favorable image. Institutional advertising is a type

of institutional promotion. This type of advertising focuses on positive information about the organization, for example, charities it supports. Institutional advertising usually does not mention any products and is usually part of the organization's public relations efforts.

However, institutional advertising is different from publicity. Institutional advertising is a message in the media paid for by an identified sponsor. The message is about the institution rather than its products. Because the message is paid for and controlled by the organization, it is advertising. Publicity is a story about an organization or its products that is carried in the media; the organization does not pay for the publicity and does not control its content. Public relations specialists for the organization send press releases to the media in hopes that the media will write stories based on the information. The organization has no control over publicity. The organization has no control over what the media says about it.

Geographic Area

Advertising is often categorized by the geographic area that the advertising reaches. The largest geographic area is international advertising. *International advertising* is designed to reach potential customers around the world, 38-4. Usually, only the large global corporations have international advertising.

The next largest area is national advertising. *National advertising* is designed to reach all potential customers in the United States. *Regional advertising* is designed to reach all potential customers in a specific region of the country. There are many different ways to divide the country into regions. One way to divide it is based on the time zones: Eastern, Central, Mountain, and Pacific (Western). Some companies divide the country into many more regions.



38-4

Large global corporations develop international advertising. Smaller companies have national, regional, or local advertising.

The smallest area is *local advertising*. The exact geographic area defined by "local" depends on the company. However, it usually refers to a geographic area smaller than a state. It may refer to an area as small as a few miles around the business doing the advertising.

Advertising Media

Another way to categorize advertising is based on the medium used to carry the message. As you learned in Chapter 34, a *medium* is a substance or technology used to carry a message. *The media* consist of the organizations and companies used to communicate with the public, such as television and radio stations, wire services, newspapers, and magazines.

In the realm of advertising, medium has a more specific meaning, and it is often used in the Latin plural form, *media*, although it often takes a singular verb. **Media** is defined in advertising as the physical means of carrying an advertising message. Examples of advertising media include newspapers, magazines, billboards, television, radio,

mugs with the business name imprinted on them, and Internet banner ads. There are many other types of advertising media. Advertising media can be organized into four main types: (1) print, (2) broadcast, (3) specialty, and (4) online.

The distinctions among the four types are as follows. Print media consists of flat surfaces on which words are printed, mainly paper. Broadcast media send their messages through the air or cable wires to either televisions or radios. Specialty media consist of useful objects on which advertising messages are printed, for example a pencil with the imprint of a company's name and Web address. Online media consists of advertising messages on the Internet. Each type of medium consists of many formats.

Print Media

Print is the most common medium of advertising. In 2002, advertisers spent over \$124 billion on print advertising. Print advertising is available in six formats:

- **Newspapers.** A newspaper is daily or weekly publication printed on cheap paper and usually discarded after it is read. Advertising is a major part of a newspaper's income. Consumers often rely on newspaper advertising for information on sales, new products and stores, and coupons.
- **Magazines.** Magazines are weekly, monthly, or quarterly publications, usually printed on good paper. Magazines are often kept for a month or more. Magazines also depend on income from advertising. Magazine ads are better quality because of the higher quality paper and the use of color.
- **Direct Mail.** Direct mail is an advertising message sent through the U.S. Postal Service to a specific potential customer. Even though the mail is addressed to a specific customer, the same message

is sent to all customers. Direct mail includes catalogs, postcards, brochures, invitations, and letters. Coupons or special offers are often included. In order for direct mail to be successful, the advertiser must obtain a good list of potential customers' names and addresses.

- **Directory.** A directory is a listing of names, addresses, and phone numbers of individuals and/or businesses. The most well-known directories are the White Pages and the Yellow Pages. Potential customers consult the White and Yellow Pages when they need to purchase goods and services. Directories often offer space for advertising and coupons.
- **Outdoor.** Outdoor advertising includes a variety of print ads placed where an audience on the move can see them, 38-5. Billboards are the most common form of outdoor advertising. Billboards on highways have the potential of reaching hundreds of thousands of consumers every day. Some states have



Photo by Amy J. Berk

38-5

The message on this balloon can be seen from the highway that passes by it.

banned the use of billboards: Maine, Vermont, Hawaii, Alaska, and ten counties in Florida. An alternative is the mobile billboard, a billboard attached to a vehicle. Other types of outdoor advertising include neon signs, hot air balloons, blimps, skywriting, and kiosks.

■ **Transit.** Transit advertising includes advertising messages posted on public transportation and in transit stations. For example, inside a subway car, above the windows, is an area for holding posters. These posters contain ads from a variety of advertisers. Commuters see these ads every day. Buses act as mobile billboards, with advertising signs on the sides and back of the bus, 38-6. There is also advertising inside the bus, similar to the subway advertising. Subway stations, train stations, and airports are places where travelers often spend time. Transit advertising includes the billboards and signs in these transit stations.



Reality Check

Describe an example for each of the six formats of print advertising.



Photo by Amy J. Berk

38-6

Many retail stores advertise on buses.

Broadcast Media

There are two types of broadcast media: radio and television. An advertising message sent by broadcast media is often called a **commercial**. Broadcast media reach large numbers of people every day. Research indicates that the average adult American watches over 1,000 hours of TV and listens to 780 hours of radio every year, 38-7. Income from advertising pays for the majority of broadcast programs.

Radio

Radio is a sound-only medium. There are two types of radio: AM and FM. The distinction is in the way the radio signal is sent. AM broadcasts can reach great distances, but are subject to static and poor sound quality. FM broadcasts produce higher quality sound, but cannot reach as far from the transmitter. Income from advertising pays for the majority of radio programming. Recently, satellite radio and Internet radio have become available and offer advertising.



38-7

The average adult watches over 1,000 hours of TV a year. How much TV do you watch?

Television

Television incorporates sound and sight. Motion, music, and live action are available on TV. In the beginning, there was only one type of TV: network TV; and there were only three major networks: ABC, NBC, and CBS. Now there are six national networks, including FOX, PAX, and the WB. There are also two additional types of TV: cable and satellite. Cable is delivered through an underground system of wires (cables). Satellite TV is beamed from satellites. These two types add hundreds of channels and thus hundreds of choices to advertisers. Income from advertising pays for the majority of TV programming.



Reality Check

Describe a radio or TV commercial that you have heard or seen. Name the channel that carried it, the product, and the sponsor. Did the commercial create desire in you for the product?

Specialty Media

Specialty media consists of useful or decorative items that carry advertising messages. Specialty media can include pencils, T-shirts, mugs, key chains, calendars, notepads, and refrigerator magnets, 38-8. The advertising message usually consists of at least the name and phone number of the advertiser. It may also include the address, Web address, name of the product, and an advertising slogan. Specialty media is also called *specialty advertising*. Specialty media is sometimes considered to be a type of sales promotion, rather than a type of advertising, because specialty media has aspects of both sales promotion and advertising. Another term for specialty media is *promotional products*. One of the professional

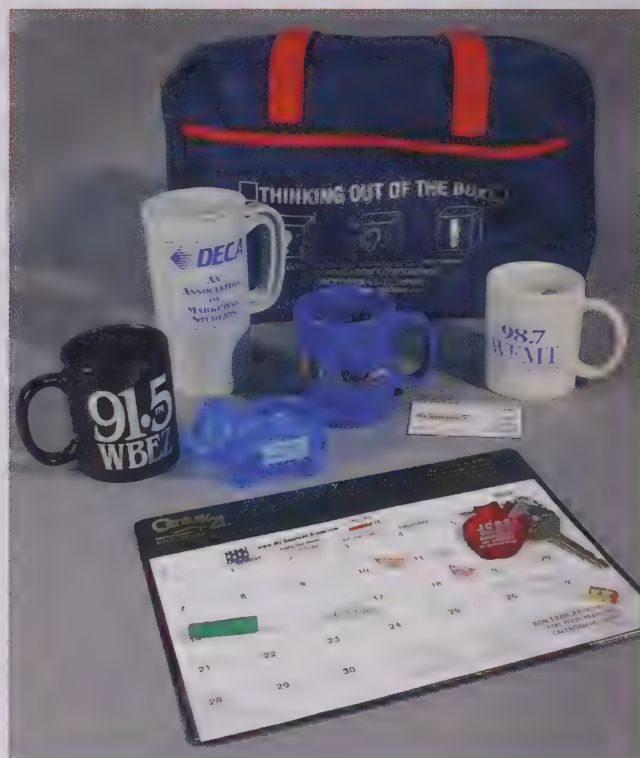


Photo by Jack Klasey

38-8

Advertising on useful or decorative items reminds you of the organization that gave it to you. Specialty items build goodwill and provide contact information if you want to buy something from the advertiser.

organizations that serve this part of the advertising industry is called Promotional Products Association International.

The purpose of a specialty item is to remind people of the company every time they use the item. The companies that give out these items hope that potential customers will use the contact information to purchase their products. For example, suppose an auto repair shop gives you a travel mug with its name, address, and phone number. One day your car battery goes dead. You grab for the mug to drink some coffee while you figure out what to do. You see the phone number of the repair shop and give them a call. In addition, other people may notice the specialty item with its advertising message

and ask about it. In this way, the specialty item enlists the user as a promoter of its products.

Reality Check

Do you have any specialty media? Describe the item and the advertising on it. Have you ever used a specialty item to find and buy a product?

Online Media

Online media is any form of advertising that is placed on the Internet. Online media is the newest and the fastest growing form of advertising. The Internet has opened up an entirely new way for advertisers to reach potential customers, 38-9. Online advertising combines the techniques of print and broadcast advertising. For example, a banner ad might be designed the way a print ad might be designed. A Web site might offer an ad that is more like a broadcast commercial, with motion, sound, and animation. Promotion and advertising on the Internet are covered in Chapter 41.

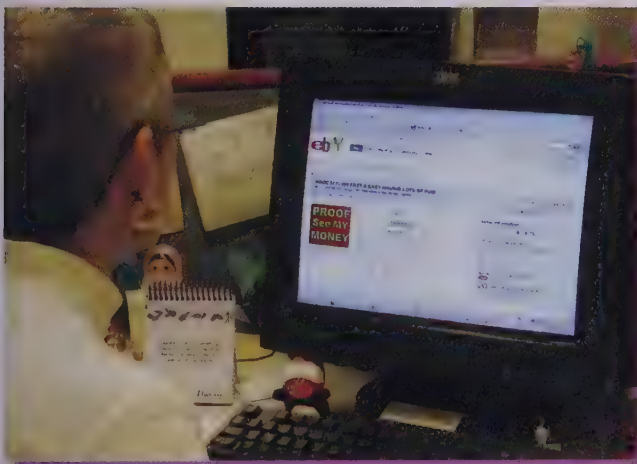


Photo by Jack Klasey

38-9

The Internet provides many ways for advertisers to reach potential customers.

The Tools of Advertising

The goal of all advertisements is to be effective. Effective ads follow the basic promotional strategy, AIDA. The ad grabs the potential customer's *attention*. It creates *interest* and *desire*. The ad then motivates the customer to *action*.

In print ads, the basic tools are words and graphics. **Graphics** are the visual part of an ad, such as photographs, illustrations, and color. In radio ads, the basic tools are words and sounds, including music. In TV ads, the basic tools are words, graphics, sounds, and motion. TV has the added ability to use live actors to present advertising messages.

Specialty media use words, graphics, and the shape and usefulness of the item. Internet advertising uses a combination of techniques from print, radio, and TV, as well as unique Web technologies. It can use words, graphics, sounds, and motion. Internet advertising can also use video of live actors. In fact, some Web sites play TV commercials.

Creating a Print Ad

The classic structure for a print ad has four parts:

- **Headline.** A **headline** consists of the words that grab the attention of the reader. Headlines usually appear in large type or have some other graphic element to draw attention to them.
- **Graphics.** Graphics provide the visual interest. The graphics are often the first part of the ad that grabs the attention of the reader. Graphics include typography, art, and layout.
- **Copy.** **Copy** is the text that provides information and sells the product.
- **Signature.** The **signature** identifies the sponsor of the ad. It is often the logo or logo plus slogan of the business.

The ad shown in Figure 38-10 has all four parts. Some ads do not have all four parts. A strong headline and graphic are sometimes sufficient. Some ads have just a graphic and a signature. Some ads do not have any photos or illustrations. The structure of the ad depends on the product being promoted and the target market.

There are three main guidelines that apply to the ad as a whole and to each part of the ad:

- Have one main idea or goal.
- Be eye-catching.
- Be brief.

These four parts and the three guidelines can apply to all types of advertising media. Radio and TV commercials have spoken headlines and copy. In radio, the sound takes the place of the graphics. In TV the graphics include the words on the screen as well as animations and movements of actors. Radio and TV ads often have a spoken or musical signature. In TV ads, the signature may appear as words on the screen. Internet ads are often structured in the same way as print ads. The following discussion focuses on print ads, but many of the suggestions and techniques work for the other types of advertising media.

Four Parts of a Print Ad

Headline

Art

Copy

Signature with slogan,
"Brush like a Dentist."

Many ads are designed based on the classic ad structure. This ad has all four parts.

Headlines That Hook

The headline uses words to grab the attention of the reader, like a lure on a fishing hook. When the reader reads the headline, he or she is hooked, either into reading the rest of the ad or buying the product. In fact, the aspect of the ad that grabs attention is often called the *hook*.

Research shows that over 80 percent of readers read only the headline of an ad. Thus, many advertisers think that the headline is the most important part of the ad. If the headline does not hook readers, they will not read the rest of the ad. There are no strict rules on what makes a headline effective. The following are some techniques that often work:

- **Offer a Benefit.** “Never clean your gutters again!”—Gutter Protection Systems
- **Create Curiosity.** “Tired of lousy service?”—Angie’s List
- **Flatter the Reader.** “You deserve a break today”—McDonald’s
- **Cause Laughter.** “Plop, plop, fizz, fizz. Oh, what a relief it is”—Alka Seltzer
- **Create a Sense of Urgency.** “Limited time only. Call today”—Feldco
- **Call To Action.** “Check this out!”—TrueValue Hardware Stores

Clever headlines can hook the reader. Techniques that you learned in English classes can help you develop clever headlines:

- **Alliteration.** A phrase that has the same consonant sound for most of the words. “The portable, powerful, new I80 printer”—Canon
- **Paradox.** A phrase that seems to contradict itself, but could be true. “Can inspiration make your heart stop and your pulse race at the same time?”—Chrysler

- **Play on Words.** Take a famous or familiar phrase, and substitute some words; or create a phrase that takes advantage of a word with several meanings. “Wheel deals!”—Village Cycle Center
- **Pun.** Uses a word in such a way as to suggest two or more of its meanings. “A cheesecake so rich, it should pay taxes”—Sara Lee
- **Rhyme.** “We bring the store to your door”—Carpet Express
- **Combination.** “Ace is the place for the helpful hardware man”—Ace Hardware (rhyme and alliteration)

A general rule recommends that headlines have seven words or fewer. Coca-Cola is famous for its short, catchy headlines, for example, “The pause that refreshes.” However, longer headlines can often be effective, especially if graphics are used.

Copy That Compels

Copy is the term used to refer to text on a page. In advertising, copy refers to the words in the ad. The term *body copy* is often used to refer to the words that explain the product and give added information. Body copy usually includes all the words in the ad except the headline and the signature. The person who writes advertising copy, including the headlines, is called a *copywriter*.

The headline and the body copy should work together. The headline attracts attention. The body copy presents the selling message. The body copy should be simple and brief. It should give the potential customer reasons to desire the product. It should provide information that customers need to make the buy decision and to locate the product. Copy in magazine ads usually focuses on the product. Copy in newspaper ads often focuses on price and availability.

Compelling copy is copy that is so lively and engaging that it compels the reader to read it. Compelling copy is hard to write.

Four techniques are commonly used to generate compelling copy:

- **Create Intrigue.** Use words to arouse interest, curiosity, and desire, such as new, hottest, free, limited offer, sale, bonus, and special offer.
- **Appeal to the Senses.** Use words that make the reader almost see, hear, taste, feel, or smell the product.
- **Sound Newsworthy.** Use specific information and facts to make the copy sound newsworthy. State the “who, what, when, where, why, and how” of your product. Include data such as statistics, performance results, case histories, comments from satisfied customers, and quotes from experts.
- **Use Action Words.** Use verbs to tell customers what to do and to motivate them to buy. Action words include call, save, join, get, buy, come, visit, e-mail, register. These verbs are often accompanied by adverbs that suggest when or how to do these actions: now, toll-free, and today.

Graphics That Grab

Advertisers argue about whether the graphics or the headline is most important.

Actually, the two must work together to attract the reader. The three components of graphics can be used in developing the graphics of an ad: (1) typography, (2) art, and (3) layout.

Typography

Typography is the visual, nonverbal aspect of words printed on a page. Typography includes decisions about typeface, size, and weight. A *typeface* is a particular style for the printed letters of the alphabet, punctuation, and numbers. Another term for typeface is *font*. There are hundreds of typefaces from which to choose. If you have used a word processing program on a computer, you have seen the different typefaces you can choose. The typeface can often create the tone and image of an ad. The traditional, most flexible, and most widely used typeface is called Times Roman. It is used in many newspapers, magazines, and books, 38-11.

A second aspect of typography is size. Letters can vary in size from small to huge. The size of the letters can vary within an ad. Larger letters have more emphasis. Headlines are usually larger than copy. In a long headline, certain words are often larger than others, to make them stand out and

Examples of Typefaces and the Tone They Set

Name of Typeface	Example	Tone Usually Created
Arial	AaBbCcDd !? 123456789	Business, Scientific
Comic Sans MS	AaBbCcDd !? 123456789	Friendly, Fun
Engravers Old English	AaBbCcDd !? 123456789	Formal, Elegant
Whimsy	AaBbCcDd !? 123456789	Fun, Playful
Times New Roman	AaBbCcDd !? 123456789	Serious, Classic

38-11

The choice of typeface can affect the readability and tone of advertising. The typeface names in the chart are those found in several popular word processing programs. The names and designs of typefaces vary depending on who makes them.

to emphasize the key ideas in the headline. The third aspect of typography is weight. Weight refers to the thickness and slant of the letters. There are three weights: regular, *italic*, and **bold**. Size and weight are often used to give words prominence in an ad. Headlines usually appear in the boldest type, as well as the largest type.

Color can also be used to great effect in headlines and advertising copy. White or yellow letters on a dark background can make the words pop out. Words in red also pop out. Blue is often used to attract attention, but give the tone of seriousness and reliability, 38-12.



Photo by Amy J. Berk

38-12

These two outdoor banners show different styles of typefaces and the effect of color.

Art

Art includes all elements that illustrate the ad. Art include drawings, photographs, charts, and graphs. Logos, shapes behind print, and abstract images or designs are also part of art. Art in advertisements has two purposes: (1) illustrate the product or (2) attract attention, 38-13.

A photograph of the product is the most common type of art used in advertising. Grocery ads, fashion ads, and automobile ads use the photo of the product to attract attention. Fashion photography for fashion magazine ads is a whole industry itself. Businesses that sell services also use art to convey the idea of the service. As you learned in Chapter 21, services have the qualities of intangibility, inseparability, and



Photo by Amy J. Berk

38-13

Apple had great success with the graphics in its advertisements for the iPod. This example is on a bus stop shelter (transit advertising).

perishability. These qualities make it difficult to illustrate services and ideas. Often, the people offering the service are pictured. For example, an advertisement for a college might show a professor in a classroom. Sometimes the result of the service is pictured, such as a woman with a beautiful haircut for a beauty salon.

Art is often used to attract attention. For example, the product itself might have a boring appearance, such as a bottle of perfume. To attract attention, the ad will show a photo of a woman in an exotic environment. Photographs of people are included in advertisements for all kinds of products. Most people are attracted to photos of other people. Celebrities of all types, such as sports figures and actors, are often used in advertising. Art can also be used to gain attention by shocking, surprising, or amazing. Drawings are often as effective as photographs. Ads for snack foods often use cartoon characters, 38-14.

Layout

Layout is the arrangement of copy and art on a page. You can have a great headline and fascinating art. However, if they are not well placed on the page, the ad might be ineffective.

One of the most effective tools in layout is white space. *White space* is the blank area where there is no art or copy. White space can act as a frame for the ad. White space can also separate the parts of an ad so that they stand out. Notice the effective use of white space in Figure 38-10; it is used to bring attention to the product. Ads with little white



38-14

Illustrations often work well in advertisements. This one might be appropriate for children's products.

space often look cluttered and disorganized, and therefore discourage potential customers from reading them.

Signature

The signature of an ad is a unique graphic or words plus graphic that identify the organization. The signature is often the name of the company, plus the logo. The slogan is often included. The signature completes an advertisement just like a signature completes a letter. The signature in an ad may also include location and contact information, such as Web address, phone number, and street address.

ShipShapes Thinking Outside the Envelope

Do you get junk mail? Junk mail is the term for pieces of mail from direct mail advertisers. If you are like most people, you get one or more pieces a week; and you threw it away without opening it. If you did open it, you probably did not respond. Only one half of one percent of people who receive a direct mail piece respond to it. You would have to send 200 direct mail advertisements to get one person to respond!

How To Get Attention

How do you get the attention of a market that is tired of getting junk mail? People are inundated with promotional messages. They are on billboards, TV, the Internet, radio, hot air balloons, supermarket floors, and boxes of cereal. It has become more and more difficult to differentiate your company's ads from all the others.

Enter ShipShapes, a customized direct mail format, developed by Tom Becker of Imageworks Manufacturing, Inc. Thinking outside the envelope, Becker created mailers in the shape of sports cars, hula dolls, and hamburgers. In fact, a company can order a mailer in almost any shape and size it wants.

If you live in Southern California, you may have been among the first to receive glistening, glazed Krispy Kreme donuts in your mailbox. Actually, you did not receive the donuts, but rather an ad shaped just like a half-opened Krispy Kreme donut box.



Courtesy of ShipShapes

How To Get Through the Post Office

It was not easy to get ShipShapes approved for postal service. The U.S. Postal Service had a rule: anything mailed had to go in a standard envelope size and shape. It took Becker two years of petitioning the Postal Service to get approval for his unusual mailers. Now Imageworks ships the mailers to the local post office in bulk in standard boxes. The post office opens the boxes, and the unique-shaped mailers are hand sorted and delivered to local addresses.

ShipShapes are not cheap. They cost from one to three dollars each, so most companies use them only for their best customers. Research shows that these mailers have a much higher response rate, more than five times greater than traditional direct mail. In the battle to get your customers' attention, ShipShapes may just be the answer.

CHAPTER 38 REVIEW

Remember This

- The purpose of advertising is to persuade receivers to buy a product or accept an idea.
- Promotional advertising is designed to increase the sales of products. Institutional advertising is intended to generate goodwill toward an organization and to create a favorable image.
- Advertising is a message in the media paid for by an identified sponsor. Publicity is a story about an organization that is carried in the media; the organization does not pay for publicity and does not control it.
- The four types of advertising media are (1) print, (2) broadcast, (3) specialty, and (4) online.
- The four parts of a print advertisement are (1) headline, (2) copy, (3) graphics, and (4) signature.
- Good ads have headlines that hook, copy that compels, and graphics that grab.
- The three components of graphics are (1) typography, (2) art, and (3) layout.

Review Concepts

1. Explain why advertising is considered a nonpersonal form of advertising.
2. How does advertising presell a product?
3. What are the two types of advertising based on the target market?
4. What is the difference between promotional and institutional advertising?
5. What is the difference between institutional advertising and publicity?
6. What are the four types of advertising based on geographic area?
7. Describe the distinctions among the four types of advertising media.
8. Which form of print media has been banned in some states?
9. How does specialty advertising work?
10. Explain the purpose of each of the four parts of a print advertisement.
11. List three techniques for writing effective headlines that you would find easiest to write and give an example of each.
12. List four techniques often used to create compelling copy.
13. Describe the three components of graphics.
14. What is white space and why is it important?

Think Critically

1. For each of the six print media formats, give an example of a product that is advertised in that format. Explain why this is a good format for that product.
2. Some people think that broadcast media is better for advertising than print media. Explain why someone might think this.
3. Name a business for which you would like to be the marketer. You want to develop some specialty media for this business. Describe what you would recommend and explain why.
4. Why is it recommended to keep headlines short?

5. Name a product that you like or use often. Write a headline for it. For help, consult the list of headline techniques in the text.
6. How does an advertisement take the potential customer through the basic AIDA promotional strategy?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out which of the four advertising media your company uses. Get a copy of a recent ad. Label the four parts of an ad. Does this ad take you through the steps of the promotional strategy, AIDA? Is the ad effective? Explain why or why not. Find out how successful the ad was for your employer.
2. Collect at least 10 ads from newspapers and magazines. Categorize the ads as promotional or institutional. If you are missing one category, search for at least two examples. Make a poster that explains the difference between promotional and institutional advertising.
3. Look through a newspaper. Which ad attracted your attention the most? Cut out the ad or make a copy of it. Describe how and why this ad attracted you the most. Label the four parts of the ad. Indicate which of the headline or copywriting techniques were used.

Explore Careers

1. Read the article "Advertising and Public Relations Services" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Advertising and public relations specialists can work for individual manufacturers and retailers, but many work in companies that just do advertising or public relations. Describe the advertising industry. List and briefly describe the occupations available in this industry. Choose an occupation in this industry that interests you. What are the training requirements? Search for a job in this occupation in your local newspaper want ads or visit a job search Web site such as www.ajb.dni.us (America's Job Bank) or www.monster.com. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Actors and directors are key workers in the preparation of TV and radio commercials. Read the article "Actors, Producers, and Directors" in the *Occupational Outlook Handbook*. What is the difference between a producer and a director? What are the qualifications for an actor and a director? Visit the Web site of the Screen Actors Guide (www.sag.org). How could membership in this organization help you in a career as an actor or director? Click on the link "Branches." Find the SAG branch for your area. What is going on at SAG in your area?

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3. Models are important to the development of print advertisements for clothing and other products. Look for information on modeling as a career in the article "Demonstrators, Product Promoters, and Models" in the *Occupational Outlook Handbook*. Describe the career of modeling. Which personal, physical, and personality characteristics are required for a career in modeling?

Connect to the Internet

1. Use a search engine and the keywords "promotional products" to locate a business that specializes in that area.

What items are available? How do you think the items available could help a business improve their sales? Choose an item. Find out the cost to buy 1,000.

2. Visit a consumer Web site. Find an advertisement that is similar to a print ad. If possible, print it out. How is this ad like a print ad? Identify the four parts of an ad in this Web ad. Find another advertisement that is more like a commercial. How is this ad like a broadcast commercial? In either ad, are there any elements that are unique to the Internet? Explain.

Marketing Terms

advertising plan

advertising agency

Better Business Bureau (BBB)

After studying this chapter, you will be able to

- list advantages and disadvantages of newspapers, magazines, direct mail, television, and radio.
- explain the four factors to be considered when choosing media.
- describe how effectiveness of advertising is determined.
- name two benefits of advertising.
- explain why laws have been passed to regulate advertising.

Imagine that you are the advertising manager for a new product. Which advertising media should you choose? You have so many choices! Should you prepare print ads for the local newspapers or advertise on national TV? Should you give away key chains with the company address or develop billboards and transit advertising? Which media will be the most effective? Which media can you afford? An **advertising plan** is a plan that specifies how the money budgeted for advertising will be used. The advertising plan is developed either by the advertising department or an advertising agency. An **advertising agency** is a business that develops an ad or commercial, and then places it in the appropriate media, 39-1.

Selection of Media

Businesses and organizations spent over 236 billion dollars on advertising in 2002. Figure 39-2 shows how these expenditures were allocated among the various formats. As you can see, the top four media were direct mail, newspapers, network TV, and



39-1

The advertising agency will take your advertising needs and turn them into finished ads.

specialty. Does that mean that you should use direct mail in your ad campaign? Not necessarily.

Various media are more appropriate than others in certain situations. There is no one medium or mix of media that is the best to use for all advertising situations. When advertisers consider media, they think about the advantages and disadvantages of each format. Figure 39-3 provides an overview of these advantages and disadvantages.

Factors to Consider

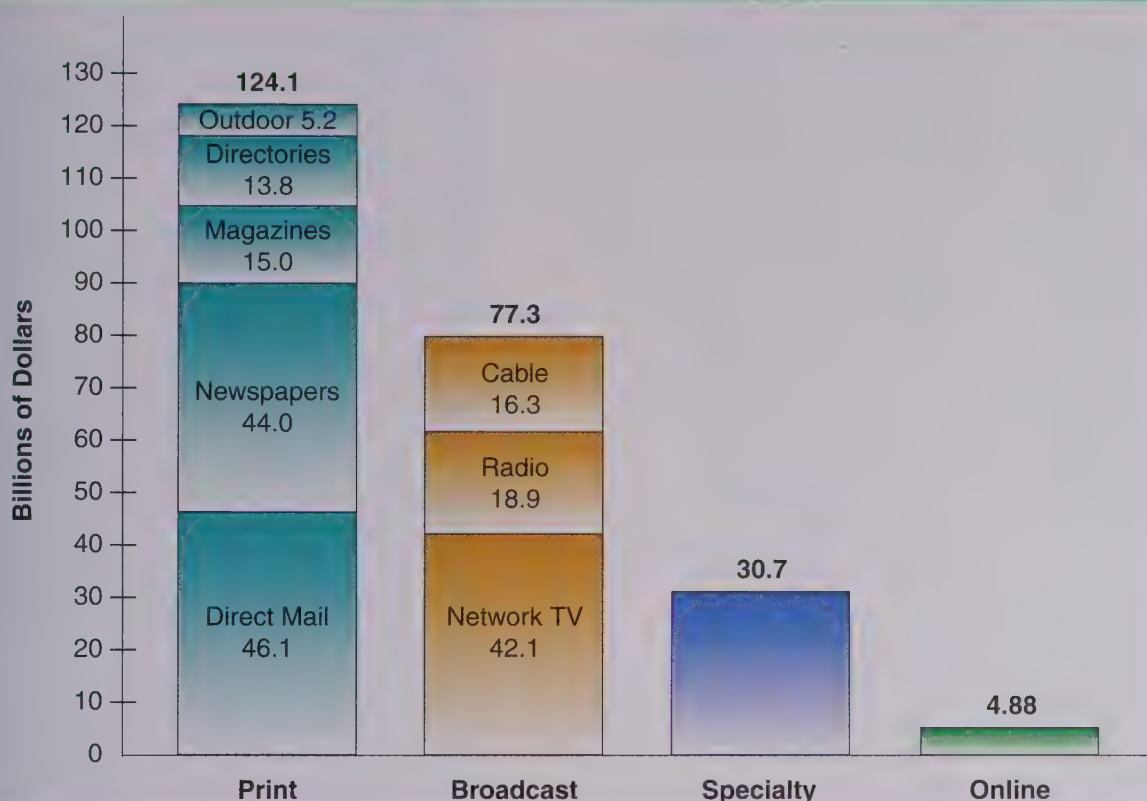
When deciding on the best advertising medium, the marketer should consider four factors: (1) target market and their media

habits, (2) type of product to be promoted, (3) nature of the message, and (4) cost.

Target Market and Their Media Habits

Advertising is useless if members of the target market do not see or hear it. If you want to reach teenagers, you would not advertise on a classical music radio station. One of the major tasks of advertisers is to know which media their target market listens to or views. Many of the most well-known marketing research companies specialize in determining the demographics of the various media audiences.

Advertising Expenditures, 2002 (in billions of dollars)



Source: Coen's Spending Totals for 2002, www.adage.com

39-2

Businesses and organizations spend billions of dollars on advertising every year. The amount spent on each format varies.



Reality Check

Imagine that an advertiser wanted to reach you. Which advertising medium would you recommend? Why?

Type of Product

If a product needs to be demonstrated, the best medium is television. For example, when cellular phones were first introduced, most of the advertising was on television. People had not seen cell phones in use, and TV showed the potential customers how to

use them. Also the potential market for cell phones is almost every age group and demographic. TV provided the broadest exposure in a medium that provided the most complete information on the product, 39-4.

Now that cell phones are widely used and the companies that sell the phones and the services are well known, radio and print advertising can be as effective as TV. However, cell phones continue to be advertised on TV. In addition, many types of products are advertised on TV because of its ability to reach a large number and a wide range of potential customers.

Traditionally, certain types of products are advertised in certain media. Fashions

Advantages and Disadvantages of Major Types of Media

Type	Advantages	Disadvantages
Direct mail	• Can illustrate product features and benefits • Flexibility in size and format • No competition from competitors' advertisements within the advertising piece • Can be personalized • Geographic area can be targeted using zip codes • Groups can be targeted using demographic information • Effectiveness can be determined by number of responses	• Often considered "junk mail" • Cost per potential customer can be high • Short life; thrown away quickly • May be difficult to find quality mailing list of prospects
Directories	<i>All directories:</i> • Widespread availability of books • Frequent usage • Specialized audiences for business directories • Long life <i>Yellow Pages:</i> • Reference tool for consumers • Source of business names in emergencies • Targets consumers already interested in purchasing your product	<i>All directories:</i> • Not timely; usually published annually • Often have competitive clutter; other competing companies on same page • Cannot make corrections or changes for a year <i>Yellow Pages:</i> • Advertising must be purchased well in advance of the publication date • Competition from the Internet • Too many competing directories
Online	• Inexpensive (especially when measured on a cost-per-customer basis) • Relatively cost-effective • Can target types of viewers • Messages can be timely • Ads can be interactive • Able to reach a worldwide audience • With search engine, a select audience made up of individuals who want information about your product can find your Web site	• Difficult to estimate and measure impact of online advertising • Costs can vary dramatically even though the cost-per-customer is low • Cannot reach potential customers who do not have Internet service • Receiver of advertising message may not read it if it is considered an annoyance or spam (junk e-mail) • Technical difficulties may interfere with transmission
Magazines	• Can target specific segment of the market, based on demographic makeup and geographical regions of the magazine's distribution and subscribers • Credibility • Quality of reproduction is high; ads are attractive and readable • Long life and repeated exposure; readers keep magazines, reread, and share them	• Length of time between issues • Long lead time for ad creation and placement • Costs can be high due to quality of reproduction • Clutter; too many ads on a page makes magazine look like a catalog

(continued)

Each medium has its advantages and disadvantages. The marketer must take many factors into consideration to determine the best medium to reach the target market.

Advantages and Disadvantages of Major Types of Media (continued)

Magazines (continued)	• Mass use • Selectivity; notable editorial circumstances • Flexibility in size of ad	
Newspapers	• High believability • Cost is relatively low per thousand compared with television advertising • Local coverage; circulation concentrated in specific geographic areas • Timeliness; current • Short deadlines; easy to make changes up to 24 hours before printing • Ad size flexibility can describe merchandise in detail • Reaches a diverse audience through special interest sections, such as business, entertainment, real estate	• Poor reproduction quality; paper and print are of lesser quality than magazines • Short life; thrown away quickly • Clutter; many ads on a page • Black and white format is not as eye appealing as full color magazine ads; when color is used, it is not as high quality as in magazines • Targeting specific audiences is limited, circulation not specialized; you pay for unwanted readers • More expensive and complicated for national advertisers to purchase
Outdoor and transit	• Continual repetition of message • Low cost • Difficult to ignore • Precise geographic selectivity • Reaches large numbers of people many times for a low cost	• Viewing time is limited to four to six seconds • Requires long lead time for preparation • Must be in place for lengthy period of time • Not good for details or a large amount of information
Radio	• Almost everyone listens, especially commuters either in the car or on portable radios • Can select specific geographic areas or national broadcast • Can select specific demographic market • Flexibility; easy to change • Relatively inexpensive • Listener loyalty to a station • Large amount of time spent listening	• No visual support • Clutter; can be ignored when aired with numerous other commercials • Repeated airings necessary to make an impression • Many competitors use the same medium
Television	• Reaches virtually 98% of U.S. households • Average viewers watch TV more than seven hours a day • Continues to attract new, young audiences • Reaches huge mass audiences with a single exposure • Easy to reach a demographically specific consumer • Can select specific geographic areas • Creative and flexible • Can demonstrate product features • Has tremendous impact with use of sight, sound, motion, and color • Use of actors and celebrities is very persuasive	• Messages must be brief and simple • Airtime on major networks during prime time can be very expensive • Repeated airings necessary to make an impression • Creating and producing commercials can be time-consuming and expensive • As VCR use increases, TV viewing decreases • Prime time audience has decreased dramatically • Viewers may switch channels during commercials • Many competitors use the same medium



39-4

The average American watches over 1,000 hours of TV a year. TV is a good way for many advertisers to reach their target markets.

are presented in magazines, where the high quality reproductions show off the clothing. Grocery stores advertise in the newspapers on Wednesdays. Luxury car manufacturers advertise on prime time TV and in magazines. CDs and concerts are advertised on the radio stations that play those bands' music.

B2B products in general are not advertised in the mass media. B2B products are usually advertised in the print publications that serve the particular industry. B2B products are also promoted at trade shows and online.

The Message

Your message consists of the information that you want potential customers to know. The type of message influences the type of media you use. For example, if you have a message that is long, complex, or technical, you would want a medium that can accommodate the entire message. Good choices would be direct mail, an ad in a specialty magazine, or on the Internet. Radio would not be a good medium because there would not be enough time for the whole

message. A short message works well on the radio.

Cost of Media

Last, but not least, is the cost factor. Cost of media varies greatly. The medium that you think would work best for your advertising campaign may be too expensive. Both the medium and the advertising budget should be evaluated in terms of the overall budget for the product and expected returns. In general, any medium that costs more than your entire advertising budget should not be considered.

For example, network television broadcasting would be too expensive for a local clothing store. Local cable television, radio, newspaper, direct mail, and even billboards might work for the store. If it is not possible to use all forms of media, you must select the ones that will help you meet your promotional objectives.

Determining and comparing the costs of various media is quite complex. The media department in an advertising agency usually handles researching the media, costs, and effectiveness. Specific jobs in the media department include media director, media planner, and media buyer.

The Effectiveness of Advertising

Would you spend money if you did not know what you would be getting? Probably not. However, advertisers often purchase advertising without knowing how effective it will be. Measuring effectiveness in terms of dollars and cents is difficult.

Some businesses use simple methods to determine ad effectiveness. For example, they might count how many of the advertised item sold in a three-day period. Others might measure the overall increase in sales for the week after the ad appears.

Neither method is accurate. Can you guess why? With the first method, customers who have not read the ad might just happen by and purchase the item. Those who read the ad might wait a week or more before they buy. With the second method, there is no real way of knowing that any increase in sales is the exact result of one particular ad, 39-5.

Marketing researchers who specialize in advertising have developed ways to determine whether an ad achieves its goals. Advertising research can be divided into two stages. First, there is the pretesting stage, which is used while developing the ad. Second, there is the posttesting stage, which evaluates the effectiveness of the ad after it appears.

Pretesting measures the effectiveness of an ad before it is seen by the general public. Pretesting is often done with focus groups and discussions with shoppers at malls. The purpose of the focus groups and mall discussions is to determine whether this sample of consumers is motivated to buy the product. If a focus group does not understand the point an ad is making, it is likely that other consumers will not either.

**39-5**

It is hard to measure whether a specific ad causes consumers to enter a store and buy the specific product.

If the focus group understands and likes the ad, it can be predicted that the ad will be successful.

After the advertisement has run, posttesting determines whether it met the advertising goals. Posttesting usually measures increases in brand awareness, changes in attitudes toward the brand, image of the brand, or questions generated about the product. These techniques do not measure the effectiveness of the ad in dollars and cents. Rather they measure how many more people know about the product. National companies often conduct telephone surveys during the 24-hour period after a commercial airs on major TV networks.

Another posttesting technique is to determine the number of inquiries received. The number of direct mail response cards returned and number of hits the Web site ad receives are inquiries that can be measured. The number of coupons redeemed and the number of orders received on a toll-free number are also ways of measuring the effectiveness of an ad. Advertisers and businesses would like to have accurate results from advertisements they run. The reality is that the research techniques used in measuring advertising's effects are usually far from perfect.

Advertising and Society

Advertising has many benefits. Advertising can:

- inform consumers and business customers about the different products they have to choose from
- speed up the acceptance of new products, which encourages new product development
- help increase employment in order to keep up with demand for advertised products

- help keep prices down
- stimulate competition among businesses, which encourages them to keep finding the best products at the lowest prices
- encourage consumers to seek a higher standard of living
- provide revenue to pay for broadcast media and the arts, 39-6
- provide a way for citizens to find out about health and social issues

Advertising has also become a significant part of the electoral process.

The benefits of advertising have underlying responsibilities. Advertisers have obligations to consumers and business customers. They are responsible for providing information that is accurate and free of deception. For example, advertisers make promises in their commercials. These promises encourage consumers to buy what is being advertised. Advertisers have the responsibility to tell the truth about a



39-6

Advertising provides revenue that pays for broadcast media and the arts.

product, its price, and the actual advantages that it can offer.

Sometimes advertisers do not take their responsibilities seriously. Sometimes advertisers do not know what is proper. As a result, laws and regulations have been passed to protect consumers from deceptive and improper advertising practices. These laws tell advertisers what they can and cannot do.

Laws and Regulations

Many laws govern advertising. Some of these laws establish federal agencies that monitor the actions of advertisers. These agencies enforce the laws and regulations affecting advertising. They take action against businesses that advertise in unacceptable ways. The main agency is the Federal Trade Commission (FTC). Other agencies that regulate advertising include the Food and Drug Administration (FDA), the Federal Communication Commission (FCC), the Patent and Trademark Office, and the Library of Congress. It is the responsibility of advertisers to know the laws and regulations that affect their type of business.

Some of the areas that these agencies monitor include

- investigating allegations of misrepresentation, omission, or misleading information
- investigating problems with word usage in vague phrases; for example, phrases like "highest performance" when it cannot be proven
- investigating information found on labels of food products; for example, food labeled "fat free" must contain less than 0.5 grams of fat per serving
- investigating claims such as "Made in USA"; for example, the product must be almost totally made in the United States or the last substantial transformation was made here

- investigating unfair advertising; for example, taking advantage of the elderly or children, who cannot make valid choices

Self-Regulation

The advertising industry would much rather regulate themselves than have federal and state governments regulate them. Thus the industry has established many organizations that help the industry self-monitor and self-regulate. One of the most well-known organizations is the Better Business Bureau. The **Better Business Bureau (BBB)** promotes fair advertising and selling practices across all industries. Local BBBs are located in most large cities and handle local advertising and selling complaints. The Council of Better Business

Bureaus works at the national level to develop advertising codes and standards.

The National Advertising Review Council was originally formed in 1971 by four associations: The American Advertising Federation, the American Association of Advertising Agencies, the Association of National Advertisers, and the Council of Better Business Bureaus. The goal of the National Advertising Review Council is to promote high standards in truth, accuracy, and social responsibility in national advertising, 39-7. This organization reviews complaints and recommends solutions.

The American Association of Advertising Agencies and the American Advertising Federation also work to maintain high advertising standards. Both have codes and standards of practice and monitor advertising practices of their members.



National Advertising Review Council

[ABOUT NARC](#)
[NARC BENEFITS](#)
[SUPPORT NARC](#)

Narc Partners

Responsible Self-Regulation Insures the Public Trust.

Established to provide guidance and set standards of TRuth and accuracy for national advertisers, NARC sets the policies for the [National Advertising Division \(NAD\)](#) and [Children's Advertising Review Unit \(CARU\)](#) of the CBBB.

Today, national advertisers, ad agencies, consumers and regulators alike rely on NARC to establish NAD and CARU guidelines that help maintain the highest standards of honesty in advertising.

Compliance with NAD and CARU decisions is voluntary, but advertisers can appeal to the [National Advertising Review Board \(NARB\)](#) if they don't agree with a recommendation.



NARC Reports:

[NARC Advertising Law Reports](#)

[NARC White Paper: Guidance for Food Advertising Self-Regulation](#)

The National Advertising Review Council sets standards for national advertisers and promotes self-regulation in the advertising industry.

The various media organizations also have standards for advertising. Each newspaper and magazine sets standards for the kind of advertising it will accept. The network television stations have some of the strictest advertising standards. These standards often change to reflect the changes in what the public will accept.

Ethics

Even with federal laws, advertisers still have a great deal of freedom. Ethics begin where the law ends. In Chapter 5, you learned that ethics are rules for deciding the right behavior in a situation. Ethics in advertising is advertising that follows the rules of truth and accuracy regardless of the situation.

Sometimes it is hard to tell what is ethical. Sometimes a company only finds out after reaction to its advertising. For example, it is not illegal for a lumber company to advertise its home repair services after a natural disaster. However, the lumber company should be careful not to give the impression that it is exploiting this disaster for personal gain.

Social Responsibility

As you learned in Chapter 5, social responsibility is the responsibility that each person has not to harm another person. It includes a duty to help others and to improve society in general. A business also has social responsibility, just as the individuals within the business do.

Advertisers often help society by providing free or low-cost advertising for charitable events, such as the American Cancer Society's "Walk for a Cure" and Muscular Dystrophy Association's "Jerry Lewis MDA Telethon." Several of the advertising industry's national professional organizations work with advertisers to help them help their communities. Examples include the Ad Council, The American Association of Advertising Agencies, and the American Advertising Federation. Through these organizations, advertisers donate time and money for civic events and community projects. They often create professional advertisements and commercials free of charge for these events.

CHAPTER 39 REVIEW

Remember This

- Each advertising medium has advantages and disadvantages.
- When choosing an advertising medium, the marketer should take four factors into consideration: (1) target market and their media habits, (2) type of product to be promoted, (3) nature of the message, and (4) cost.
- It is difficult to determine the exact effectiveness of a single ad or an advertising campaign.
- There are many benefits to advertising.
- Laws have been passed to regulate advertising because some advertisers create deceptive, dishonest, or unfair advertising.

Review Concepts

1. What is an advertising plan?
2. Which medium is the most widely used?
3. List one advantage and one disadvantage for each of the eight major types of media.
4. List four factors that a marketer should consider when deciding on an advertising medium.
5. Why is it most important to know your market and their media habits?
6. If a product needs to be demonstrated, which medium is the best choice and why?
7. How does the type of message affect the choice of media?

8. How do advertisers pretest an ad?
9. Why is it difficult to measure the effectiveness of an ad?
10. List four advertising techniques to which responses can be measured.
11. List nine ways advertising benefits society.
12. Why have laws been passed to regulate the advertising industry?

Think Critically

1. There is no one medium or mix of media that is the best to use for all advertising situations. Explain why this is so.
2. Imagine that you are an advertiser and you want to place an ad in a magazine. What factors would you think about in choosing a magazine?
3. Certain products are usually advertised in certain media. Name a product and a medium in which it is usually advertised. Explain why this medium is usually used for this product.
4. A large and well-known company decides not to advertise on TV during the Superbowl. Why might such a company not want to advertise during this widely viewed TV program?
5. Imagine that you are a salesperson selling advertising time on a TV station. The customer says that the price is too high. What might you say to convince him or her that the cost is worth it?

CHAPTER 39 REVIEW

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out whether the company uses an advertising agency or does the advertising in-house.
2. Businesses need to know which media appeal to different target markets. Prepare five to seven questions to determine the media that your friends view the most. Select 10 friends and ask each one your questions. Record their answers. Based on your survey, which media do your friends view the most? Do you think your friends are representative of teenagers in America? What would you recommend to a business that is trying to advertise to your age group?

Explore Careers

1. The account manager (also called account executive) is a key member of an advertising agency. Use library resources and the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco, to find out what an account manager does. Search a job search Web site, such as www.aib.dni.us (America's Job Bank) or www.monster.com, for jobs as an account manager in advertising. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
2. Another key worker at an advertising agency is the media buyer. Use library

resources and the *Occupational Outlook Handbook* to find out what a media buyer does. Search a job search Web site for jobs as a media buyer. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

3. Advertising sales agents sell airtime for radio and television and page space in print media. Search a job search Web site for jobs as an advertising sales agent. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Visit the Web site of the American Association of Advertising Agencies (www.aaaa.org). How could membership in this organization help you improve your advertising? Click on the link "Select a member agency for hire." Find an advertising agency in your state or a nearby state. Look up that agency's profile. Write a description of that agency. Would you want to work for them or use them if you had a product to advertise?
2. Visit the Web site of the Federal Trade Commission (www.ftc.gov). Find the link for "About the FTC," which will lead you to a page with a link "Guide to the Federal Trade Commission." Read the section on the Division of Advertising Practices, under the Bureau of Consumer Protection. How does the FTC protect consumers against fraud



and deceptive advertising? Use a search engine to find more information on the truth-in-advertising laws. Use the keywords “deceptive advertising” to find information about an instance of deceptive advertising.

3. Visit the Web site of the National Advertising Review Council

(www.narcpartners.org). Describe the purpose of the NARC. Which other organizations does it work with? What does the National Advertising Division do? What does the Children’s Advertising Review Unit do?

Marketing Terms

visual merchandising
store image
storefront
store layout
fixture
merchandise presentation
self-service presentation
full-service presentation
display
window display
interior display
color wheel
color scheme

After studying this chapter, you will be able to

- explain the purpose of visual merchandising.
- distinguish between window displays and interior displays.
- describe how to plan a display.
- explain the importance of maintaining a display.
- list six elements of design.
- list four principles of design.

Imagine yourself walking into a mall. Why do you walk into one store, but pass by another? Perhaps one store window has an outfit in the latest colors, surrounded by large photographs of teens whom you want to look like. Perhaps the other store window shows traditional suits and jackets, predominantly in beige and camel. In fact, each store is designed to attract its target market. The first store is designed to attract teens. The second store is designed to attract people looking for business clothes.

What Is Visual Merchandising?

Visual merchandising is the physical presentation of merchandise and the design of a place of business for the purpose of increasing sales, 40-1. Visual merchandising has three elements: store image, merchandise presentation, and display.

Visual merchandising is a vital part of the promotional mix, especially for retail stores. Advertising and sales promotions can bring people into a store, but visual merchandising is the promotional element that influences

them in the store. Visual merchandising is often referred to as the silent salesperson. The purpose of visual merchandising is to attract customers to the merchandise for closer examination. Because visual merchandising is part of the promotional mix, it should be coordinated with other promotional efforts.

This chapter will focus on visual merchandising for retail stores. However, visual merchandising is also important for service businesses, entertainment venues, and B2B businesses, 40-2. Visual merchandising plays an important role in service businesses, such as doctors' offices and beauty salons. The design and atmosphere of service businesses influences how customers feel about the business and whether they will buy the services.

Many manufacturers of consumer products have showrooms to promote their products to retailers. Visual merchandisers design the showrooms to entice retailers to buy their merchandise.

Visual merchandising is also used at trade show exhibits. A trade show is a

**40-1**

Displays are designed to attract interest and entice consumers to buy.

**40-2**

Photo courtesy of The Mills Corp.

Visual merchandising is also important for service businesses and entertainment venues, such as this movie theater.

meeting designed for people in a specific profession or business. Part of the purpose of the trade show is to show new products to prospective customers. These new products are displayed in an exhibit hall. For example, the National Restaurant Association has a trade show every year. Nearly 2,000 companies that sell food and supplies to the restaurant and lodging industries have exhibits at this show. Each company tries to make its display the most appealing to the target market.

Store Image

The **store image** is the idea of a store in people's minds. Store image is created by visual merchandisers through the design and decor of the store. Here are some words that describe store images: trendy, sophisticated, discount, bargain, upscale, expensive, casual, business, youthful.

In an independent store, the store owner usually establishes the store image. In a chain store, the image is usually established at the company's headquarters by the top managers of the company. How do these people know what image to develop for a store? They usually try to answer questions such the following:

- Who are our customers?
- What kinds of new customers do we want to attract?
- What kind of merchandise do we sell?
- What is the image of our location?
- What image does our main competitor have?
- What image do we want to project?



Reality Check

Name a store that you visit often. What is the image of that store? What visual elements create that image?

Store Exterior

The image of a store is created by its exterior and its interior. The exterior is the first part of the store that a customer sees. The store exterior is often called the **storefront**, and it includes the store sign, display windows, entrances, outdoor lighting, landscaping, and the building itself, 40-3. The store sign is a major element of a store exterior. Many businesses develop a unique way of writing the company name, often with design elements, 40-4. Often this is the way the name is displayed on the store sign. The display windows show a selection of merchandise available in the store.

The design of a business's exterior is often part of the place decision. The location of the business often influences a store's image. Visual merchandisers often work with architects and interior designers when the business location and building are first planned.



40-3

The look of the storefront helps create the image of the store.



40-4

The sign with the company or store name is often an important part of the storefront.



Reality Check

Describe the exteriors of three businesses. Based on the exterior, what is your image of each store?

Store Interior

A store interior is usually divided into two sections: the selling area and the sales support area. The *selling area* is where the merchandise is presented to the customer. This area includes shelves or racks holding merchandise, displays of merchandise, and counters with cash registers for sales transactions.

The *sales support area* contains amenities for customers, such as restrooms, lounges,

and cafes. It also contains staff areas, such as offices, lockers, and a lunchroom. This area also includes space for merchandise receiving and storage. A small store might just have space for staff and merchandise receiving and storage.

Store Layout

A **store layout** is a plan that shows how the space in a store will be used. The selling area and the sales support area are indicated. Also indicated are the permanent fixtures, such as shelving, racks, counters, light fixtures, and other furnishings in the store. The placement of these items will have a major effect on store image. For example, the placement and width of the aisles will determine how shoppers walk through the store. Wide aisles usually are relaxing and encourage browsing. Narrow aisles often feel cramped and may make the shopper feel rushed; on the other hand, narrow aisles are common in bargain stores and give the feeling of good value for your money.

Store Decor

Store decor refers to the way the store is decorated. It includes the more permanent items, such as the floor and wall coverings, other furnishings, the lighting fixtures, and the store fixtures. It also includes items that can be easily changed with the seasons, such as banners, signs, and other props.

The term **fixture** refers to an item designed to hold merchandise for display and sale. Some fixtures are permanent, such as counters and display cases. Other fixtures are movable, such as tables, wall shelving, bins, and racks. Fixtures are often customized to meet the needs of the particular product. For example, fixtures designed to display fishing rods will have a different shape from fixtures designed to display shoes.

Merchandise Presentation

The whole purpose of the store image, store layout, and store decor is to get customers into the store to show them the merchandise. **Merchandise presentation** is the way merchandise is displayed for sale in a store.

There are two basic types of merchandise presentation: self-service and full-service, 40-5. In **self-service presentation**, all of the merchandise is on the selling floor. Customers can find the merchandise on their own and select the items they want. They then bring them to the cashier. Many grocery stores are self-service. Many clothing and other retail stores are in the self-service category, that is, all the merchandise is on

the selling floor. However, they do provide customer service in the form of sales associates that can provide some help if you have questions or need help finding an item.

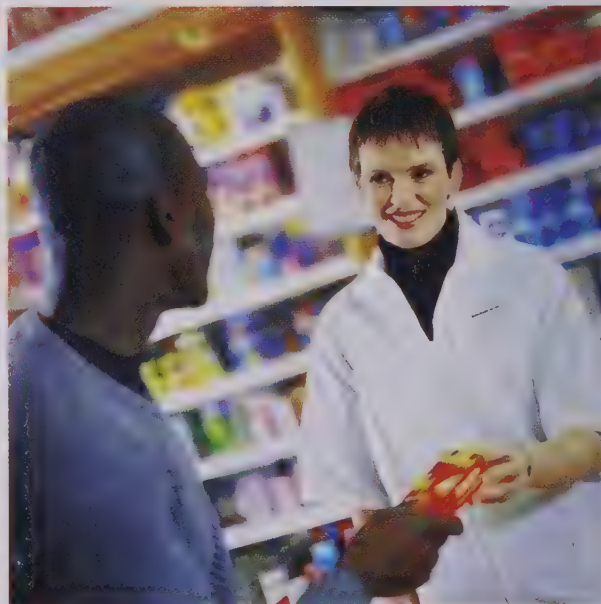
In **full-service presentation**, none of the items for sale are on the floor. Select items may be on display, but you must ask a sales associate to get the item you wish to purchase. For example, fine jewelry is usually displayed in a locked display case. You must ask a sales associate to get the piece you are interested in if you want to examine it closely or buy it. Many shoe stores are full-service. A selection of shoes is on display, and you may handle them or try them on if they are in your size. However, most of the varieties of sizes and colors are in the storage area. A sales associate must go and get your size and color.

Merchandise Presentation

Self-Service



Full-Service



Left: Photo courtesy of IGA, Inc.

10-5

The two basic types of merchandise presentation are self-service and full-service. Most grocery stores are self-service. Pharmacies are full-service; that is, none of the prescription medicine is on the floor. You must ask the pharmacist or pharmacy technician to get the prescription you need.

Large retail stores often have a combination of self-service and full-service. For example, in a grocery store, most of the food is self-service. However, there may be a deli department that is full-service.

Some upscale stores offer luxury full-service. You enter the store and sit on a comfortable chair or sofa. The sales associate asks you what you are interested in, and then brings you appropriate merchandise to examine or try on.



Reality Check

Name a store with which you are familiar. Is the merchandise presentation self-service, full-service, or a combination? Explain your answer.

Displays

A **display** is an arrangement of merchandise designed to get attention and thus promote sales. The major purpose of displays is to excite customer interest in the merchandise. Displays can also provide information about the products, show customers how to use or accessorize products, and add to the store image.

Displays are a critical part of visual merchandising. In fact, when people think of visual merchandising, they most often think of display creation. As part of an overall promotional plan, displays should coordinate with the store image and any specific promotional campaigns. For example, if a sporting goods store is advertising a new type of tent, there should be a display in the store showing the tent and promoting its features.

Types of Displays

There are two categories of displays: window displays and interior displays. A **window display** appears in store windows

that face the street or the walkways of a mall. Window displays are usually designed to capture customer interest and draw customers into the store. Window displays often have dramatic colors and lighting.

An **interior display** is located inside a store. Interior displays are strategically placed to catch the customer's eye and to generate traffic flow within the store. Common locations for interior displays include the store entrance, across from elevators, at the ends of escalators, along major aisles, and near cash registers. Interior displays often provide information, such as how to wear new styles or coordinate accessories.

There are three types of interior displays: open, closed, and point-of-purchase, 40-6. In an *open display*, the merchandise is arranged so that the shopper can handle it. In a *closed display*, the merchandise is enclosed in a display case so that the shopper cannot touch it. Closed display cases may also be locked. Closed displays are often used for jewelry and china because of the risk of theft or breakage.

A point-of-purchase display is a special interior display, usually found near a cash register. A *point-of-purchase display* is designed to provoke impulse purchases as the customer is waiting to pay for his or her purchases. These displays are usually developed and provided by the manufacturer; they include the display itself as well as the merchandise.



Reality Check

Think of a display that caught your eye. Describe the elements in the display that grabbed your attention.

Display Development

Before a display can be constructed, it must be planned. Planning involves thinking

Types of Displays

Window



Interior: Open



Interior: Point of Purchase



Interior: Closed



40-6

Lower left: Photo courtesy of IGA, Inc.

Visual merchandisers have to decide which type of display will work best for their products and their target market.

about the display before you actually set it up, 40-7. The following steps will help you plan a display:

1. **Determine the goal of the display.** For example, the goal might be to promote new merchandise or to show how to wear a new style of clothing.

Preparing Displays

Empty Shelves



Unpacking Boxes



Placing Merchandise



Ready for Customers



Photos by Dominic Ierardi, Greater Lowell Technical High School

40-7

Students at Greater Lowell Technical High School prepare their gift shop displays for the December gift-giving season. Notice that all items have been ticketed.

- Choose the merchandise.** The merchandise should be eye-catching or notable in some way. Merchandise that is the subject of the current promotional campaign is appropriate.
- Choose a theme.** A theme can be an artistic element, such as a color scheme. A theme can also be an idea, such as the beach, a carnival, a holiday, or back-to-school. Often, an entire store will have a theme, such as back-to-school. In that case, all individual displays will support that theme.
- Select props.** Props are objects used in a display to support the theme or to physically support the merchandise.

A beach ball for a swimsuit display and the mannequins wearing the swimsuits are props.

5. **Arrange the merchandise and props.** Arrange the items in a way that attracts customers and promotes the products.
6. **Develop signs.** Signs can be used to give information, such as the manufacturer or price of the items. Signs should be brief and easy to read.
7. **Design the lighting.** Lighting should provide enough light to see the merchandise and read the signs. Spotlights can be used to focus on specific items in the display. The lighting design should minimize glare and shadows.

Display Maintenance

Suppose you are looking at a clothing display. You notice that the mannequin has a broken hand, the shirts on the table are scattered about, and the bulb in the spotlight is out. What would you think? Dirty, messy displays can ruin a store's image. To maintain a good image, a display must be kept clean and orderly, 40-8. The following is a guide for good display maintenance:

- Check at least once a day to make sure that the display looks as clean, crisp, and fresh as when it was first completed.
- Clean the floor, table, props, and merchandise regularly.
- Replace any merchandise that has been removed or damaged.
- If merchandise has been moved, put it back where it belongs.
- Check lights and replace as necessary.



Reality Check

Describe a display that you have seen that has not been well maintained. How did you feel about the store and its products?



Photo by Dominic Ierardi, Greater Lowell Technical High School

40-8

An important part of display maintenance is replacing items that have been purchased.

Display Evaluation

The purpose of displays is to promote store image and sell products. Visual merchandisers usually evaluate each display to determine whether it is meeting these goals. These questions will help you determine the quality of the display:

- Does the display fit our store image?
- Does the display grab customers' attention?
- Does the display focus attention on the merchandise?
- Are the signs clear and easy to read?
- Is there enough light, with minimal glare and shadows?
- Is the display clean and neat?

It is often possible to determine the effect of a display on sales. You can measure the sales of an item for a week before the display is set up. Then measure the sales for the week after the display featuring the item is set up. Compare the sales. If the sales increase, you have a successful display.

Design and Visual Merchandising

Success in visual merchandising involves the use of design. As you learned in Chapter 35, *design* is the purposeful arrangement of materials so that a certain effect is produced. Design is involved in many areas of human endeavor, including fine arts, advertising, and product development, as well as visual merchandising.

The following discussion introduces you to the elements and principles of design. These principles are useful in advertising as well as visual merchandising. The elements of design include (1) color, (2) line, (3) shape, (4) texture, (5) light, and (6) motion. The elements of design are the building blocks that can be manipulated to create an effect. The principles of design are guidelines that can help you use the elements effectively. The principles of design include (1) emphasis, (2) movement, (3) balance, and (4) proportion.

In visual merchandising and advertising, the main goal is to grab the attention of the customer. Successful visual merchandisers and advertisers use their sense of design and their creativity to create displays and advertisements that work. Often, successful displays and ads use the elements of design in new ways.

Color

Color is often the most dramatic and noticeable design element. Colors can grab attention, create a mood, or affect how someone feels. Psychologists have studied colors and the associations people have with them. Figure 40-9 shows common associations that Americans have with certain colors. Notice that the same color can have positive and negative associations.

Colors have different meanings in different cultures. For example, brides in America wear white because white

Color and Emotions in U.S. Culture

Black. Elegant, sophisticated, strong, serious, wise, mysterious, tragic, sad, old, evil, gloomy

Gray. Modest, sad, old

White. Youthful, innocent, faithful, pure, peaceful

Violet. Royal, dignified, powerful, rich, dramatic, mysterious, passionate

Blue. Peaceful, calm, restful, tranquil, truthful, serious, cool, formal, spacious, sad, depressed

Green. Cool, fresh, natural, friendly, pleasant, calm, restful, lucky, envious, immature

Yellow. Bright, sunny, cheerful, warm, prosperous, hopeful, cowardly, deceitful

Orange. Lively, energetic, cheerful, joyous, warm, hospitable

Red. Exciting, vibrant, passionate, hot, aggressive, angry, dangerous

40-9

American culture tends to associate certain emotions with certain colors. You will notice that each color has more than one emotion, and sometimes those emotions contradict. Also, one emotion can be associated with more than one color. Color and emotion is not an exact science.

symbolizes purity and innocence. In China, brides wear red because red symbolizes luck and joy. In China, white is the color of mourning. Colors can also have different meanings in different eras in the same culture. For example, the “in” colors change frequently. Visual merchandisers must use their artistic experience and their social awareness when using color.



Reality Check

How do colors make you feel? Choose a color. Write down words that describe the things you think of or the feelings you have when you look at this color.

Color Wheel

The perception of color is individual. Whether a person likes certain colors or color combinations is very subjective. However, many people tend to agree on which color combinations are pleasing. One tool that is used as a guide for developing color combinations is the color wheel. The **color wheel** is a standard arrangement of 12 colors in a wheel that shows the relationships among the colors, 40-10.

The *primary colors* are red, blue, and yellow; they are placed at equal distances on the color wheel. If you mix equal amounts of the two primary colors, you get the secondary colors. The *secondary colors* are green, violet, and orange. If you mix equal amounts of a secondary color and a primary color, you get the intermediate colors. The *intermediate colors* are yellow-orange, yellow-green, blue-green, blue-violet, red-violet, and red-orange.

Color Wheel



40-10

The color wheel shows the relationship among the 12 basic colors. Designers use the color wheel as a tool to help them decide which colors to use.

yellow-green, blue-green, blue-violet, red-violet, and red-orange. Black, white, and gray are *neutral colors*.

A color has three distinct qualities: hue, value, and intensity. It is often helpful to visualize a tube of paint when trying to understand these concepts. *Hue* is the pure color itself, for example, red. *Color* is often used as a synonym for hue. *Value* refers to the lightness or darkness of the color, that is, how much white or black is mixed with the hue. Hues mixed with white are called *tints*. For example, pink is a tint of red. Hues mixed with black are called *shades*. Burgundy is a shade of red. *Intensity* refers to the brightness or dullness of a color.

Color Schemes

A **color scheme** is a description of color combinations. There are many color schemes. In fact, various industries such as the fashion industry try to come up with new color schemes every season. However, there are six basic color schemes based on location of colors on the color wheel, 40-11.

Line, Shape, Texture, Light

Line refers to a one-dimensional mark that looks as if it were drawn by a pen. A line can be an actual line drawn by a pen. A line can also be a boundary, for example, where two walls meet or where a seam joins two pieces of fabric. Lines can be straight, curved, or jagged. A line also has direction. A line can be vertical (up and down), horizontal (side to side, like the horizon), or diagonal (at an angle). The direction of a line guides the eye from one point to another. The direction of lines gives movement to a design.

Shape refers to the shapes used in a design. The shapes can be two-dimensional, such as circles, triangles, and octagons; or three-dimensional, such as spheres, cubes, and cylinders. Shape also refers to the overall outline of an item or display, which is often called the silhouette.

Six Basic Color Schemes

Name	Number	Location on Wheel	Examples
Monochromatic	One color	Any color plus its tints or shades	
Accented Neutral	Two colors	One neutral plus one color from anywhere	
Complementary	Two colors	Opposite each other	
Split Complementary	Three colors	Choose one color; add the two colors on either side of the complementary color	
Triad	Three colors	Equal distances from each other	
Adjacent	Three colors	Next to each other	

40-11

The six basic color schemes are based on the location of the colors on the color wheel. The tints and shades of each color can also be used for more variety.

Texture refers to the surface quality of materials. Aluminum foil has a shiny texture. A wool scarf has a dull texture. Some other words that describe texture include smooth, rough, fuzzy, shaggy, sheer, soft, hard, crisp, and furry.

Light is necessary in a window or display so that the viewer can see what is being shown, 40-12. Lighting can be from overhead lights, track lights, table lamps, and spotlights. Care must be taken that the lighting does not cast shadows that interfere with the design.



© 2004 Photo courtesy of Reebok International Ltd.

40-12

Lighting is an essential part of a display.

Motion

Motion can sometimes be an additional element of design. In merchandise displays, mechanical devices are often used to move the products in the display. The most common is a rotating platform. Sometimes, mechanical figures are used to add motion, for example, in holiday displays.



Reality Check

Look for the elements of design around you. Identify color, line, shape, and texture.

Principles of Design

The principles of design are guidelines for using the elements of design effectively.

Emphasis is drawing the attention of the viewer to the most important part of a display. Suppose a book is the most important part of a display. You can use lines that point toward the book to give it emphasis. You can use color by placing the book on a bright red cloth. You can use texture by surrounding the book with sparkling confetti. You can use light by pointing a spotlight on the book.

Movement refers to the way the design guides the viewers' eyes over an item or display. Readers of Western languages such as English read from left to right, and therefore tend to "read" windows and displays from left to right. A designer can use color, shape, line, texture, and light to direct the viewers' eyes to move along a desired direction. Another way to direct the viewers' eyes is by the way mannequins are placed in a display. The direction that a mannequin looks can direct the eyes of a viewer.

Balance refers to the way items are placed around an imaginary centerline. Formal balance means that you have an object on one side of the line, and another object of equal size the same distance from the line on the other side. Informal balance means that you have a large object on one side of the line, but on the other side you have two smaller objects that together are about the same size as the larger object. Informal balance also occurs when you have a large pale object on one side, and a smaller but very bright object on the other side. The small but bright object balances the larger but pale object.

Proportion refers to the size and space relationship of all items in a display to each other and to the whole display. Proportion can also be applied to a single item, for which you consider the size and space relationships of all the parts of the item to the whole item. For example, imagine a very light colored, delicate dress; a wide, dark, heavy leather belt would be out of proportion. A narrow silver belt would look more in proportion.

CHAPTER 40 REVIEW

Remember This

- The purpose of visual merchandising is to attract customers to the merchandise for the purpose of increasing sales.
- Window displays are located in windows that face the street or the mall. Interior displays are located inside the store.
- Displays must be planned before they are set up.
- Displays must be maintained daily for success.
- The elements of design include (1) color, (2) line, (3) shape, (4) texture, (5) light, and (6) motion.
- The principles of design include (1) emphasis, (2) movement, (3) balance, and (4) proportion.

Review Concepts

1. Advertising and sales promotions can bring people into the store. What type of nonpersonal promotion influences potential customers to buy once they are in the store?
2. Imagine that you are a visual merchandiser assigned to develop a storefront. What items would you include in planning the storefront design?
3. The interior of a retail store is usually divided into two sections. What are they?
4. Describe the two types of merchandise presentation.
5. What is the difference between an interior display and a window display?

6. If a store sells expensive silverware, what kind of interior display would you recommend?
7. Name an item that can be purchased from a point-of-purchase display.
8. Why is display maintenance important?
9. List the six elements of design.
10. List the four principles of design.
11. What are the primary colors and the secondary colors?
12. As a principle of design, how is movement used in displays?

Think Critically

1. How or when do service businesses and B2B businesses use visual merchandising?
2. Imagine that you are a consultant in visual merchandising. What would you ask a new customer in order to develop an image for a new store?
3. Recall the AIDA promotional strategy that you learned about in Chapter 37. How can displays be used in the AIDA promotional strategy?
4. You have been asked to help the visual merchandiser with a back-to-school clothing window display. Using the display development steps, describe your ideas for the display.
5. The mannequin in your clothing display is wearing the only outfit left in a line of clothing that you have been selling. What would you do?
6. Give three examples where you have seen design in your daily life.

CHAPTER 40 REVIEW

Connect to Business

1. Look around the business where you work or a business that you often visit. What kind of business is it? How does that business use visual merchandising to increase sales? What kind of image does the visual merchandising project? Discuss your observations with your manager.
2. Visit a fairly small retail store. Analyze the visual merchandising at the store. How is the storefront designed? Who is the target market and how does the visual merchandising appeal to this market? Are there a theme and a color scheme? What kinds of displays are there? Draw a layout of the store.

Explore Careers

1. Use library resources and Internet resources to learn what a visual merchandiser does. Also read the section on merchandise displayers and window dressers in the article "Designers" in *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Search a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, for jobs as a visual

merchandiser. Browse through the available jobs. Choose one. What will the person in this job do? What are the requirements? Would you like this job? Explain why or why not.

2. Many other types of designers use skills similar to those needed by visual merchandisers. In the article "Designers" in *Occupational Outlook Handbook*, find and make a list of other careers in design. What qualities do all these careers require?

Connect to the Internet

1. Visit the M&Ms Web site (www.mms.com). How does this Web site and brand use color?
2. Visit the Web site of a clothing or a sports equipment retailer. Name the site. Describe the products offered. Who is the target market? How is the home page designed to attract your attention? How are color and motion used? How are the products displayed?
3. Visit the Web site of VisualStore (www.visualstore.com). Who is the target market for this Web site? What kind of information can you find on this Web site?

Promotion on the Internet

Marketing Terms

online promotion

e-mail

streaming media

spam

banner ad

pop-up ad

pop-under ad

out-of-frame ad

interstitial ad

intrusive promotion

permission promotion

viral marketing

After studying this chapter,
you will be able to

- explain why marketers are excited about the Internet for promotion.
- describe the ways in which the Internet is similar to other promotional media.
- describe the advantages and disadvantages of the Internet for promotion.
- describe the two basic forms of online promotion.
- explain how the Internet can be used for each of the four elements of promotion.
- list five types of Internet ads.
- compare and contrast intrusive promotion and permission promotion.

Do you surf the Internet? Have you seen the ads that flash across the top of your computer screen? How about the monkey that jumps around all over your screen trying to sell you who knows what? Have you used a search engine to locate an item that you wanted to buy? Have you e-mailed a company for information about a product? The Internet is the newest technology used for promotion, 41-1.



Reality Check

Describe an advertisement that you have seen on the Internet.

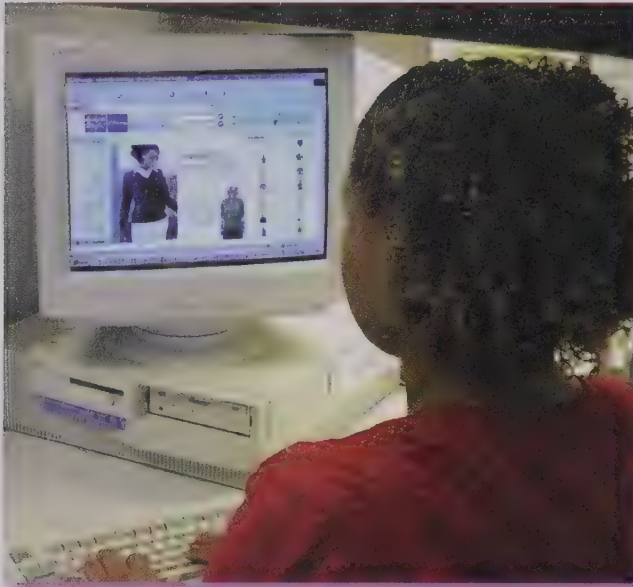


Photo by Jack Klasey

41-1

Customers visit the Web sites to learn about products, buy them, get customer service, and learn more about the company.

Types of Promotion on the Internet

In Chapter 29, you learned e-commerce basics and how the Internet can be used as the place P of the 4Ps of the marketing mix. The Internet, which includes the World Wide Web, is an excellent tool for the promotion P of the Four Ps. Promotion that occurs via the Internet or the World Wide Web is commonly called **online promotion**.

The Internet is used for all four types of promotion: (1) personal selling, (2) advertising, (3) sales promotion, and (4) public relations. In general, the Internet is used for nonpersonal promotion, that is, the same message is sent to all receivers.

However, the Internet can also be used for personal promotion, for example, when sales representatives interact with customers over the Internet in real time. E-mail can also be used for personal marketing communication. Advertising is the most visible use

of the Internet. However, the Internet is increasingly used for customer service and building customer relationships and loyalty. The Internet is used for both B2B and B2C promotion, 41-2.

Marketers are enthusiastic about the Internet for several reasons. Once customers have Internet access, the advertising messages are always available. Potential customers can get on the Internet any time of day or night and see promotional messages. The Internet is also very popular with young people, a market that advertisers often find difficult to reach.

Another attraction of the Internet is that it is global. Marketers can easily reach potential customers all over the world. In addition, some forms of Internet advertising are relatively inexpensive.

Growth of Internet Use

Spending on Internet advertising was about two percent of the total amount of money spent in the United States on advertising in 2002. In 2002, almost \$5 billion dollars were spent on Internet advertising, compared with a total advertising expenditure of almost \$240 billion. The top six advertisers in the United States spent less than one percent of their advertising budgets for online promotion.

However, the rate of Internet advertising is growing faster than the rate of overall advertising spending. Internet advertising is expected to become a larger percentage of advertising spending for most companies. It is expected that within about five years, the budgets for Internet spending will increase to almost a quarter of advertising budgets. Online advertising may then account for almost ten percent of advertising spending.

Part of the reason for the growth in online advertising is the increase in the number of people online, 41-3. Although it is difficult to determine Internet use exactly, Nielsen/Net Ratings estimates about 174



Courtesy of 0042 Design. www.0042.com

41-2

Many businesses that sell to other businesses have Web sites and advertise on the Internet. This design company wants to attract clients who will use its design services.

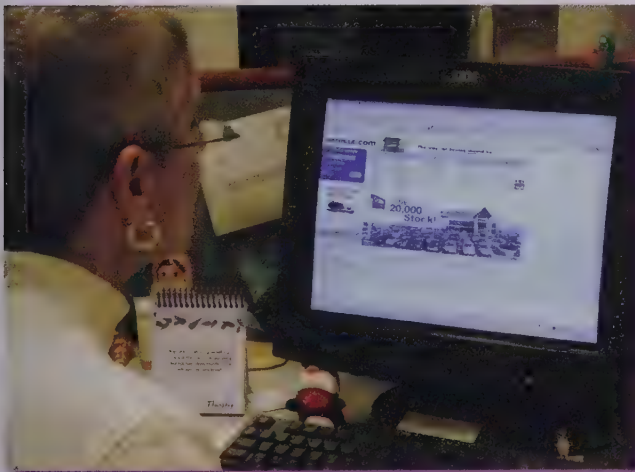


Photo by Jack Klasey

41-3

More and more people are buying computers and connecting to the Internet. Many are using the Internet to research and buy products.

million Americans have access to the Internet and spend an average of about 16.5 hours online a month. That is much less than TV watching and radio listening, but it is significant and likely to grow. The Computer Industry Almanac estimates 934 million users worldwide in 2004.



Reality Check

How often do you go online? How much time do you spend on the Internet?

Similarity to Other Media

The Internet as a medium has many similarities to the other advertising media. Online promotion is similar to print promotion in many ways. Online promotion

often uses words on a flat surface (the screen). In fact, the units on a Web site are referred to as pages. Online promotion uses headlines, copy, graphics, and signatures in ways very similar to print advertising. The type of Internet ad called a *banner ad* is very much like an ad in a newspaper or magazine. The difference (and advantage) of an online banner ad is that it usually has a link that you can click on. The link usually takes you to the seller's Web site, where you can find more information or even order the product.

Direct mail is an advertising message sent through the U.S. Postal Service to a specific potential customer. The Internet can be used for direct mail messages also. The message is sent electronically via the Internet instead of the U.S. Postal Service. The document used to send the message is called *e-mail*, short for *electronic mail*. **E-mail** is an electronic document sent through an internal computer system or over the Internet. E-mail can be used for nonpersonal mass mailings of promotional messages. However, e-mail can also be used for personal messages between the business and a specific customer.

Directories originated in the print medium. However, the Internet itself is like a directory. By using a search engine, a customer can find almost any business or product offered on the Web. In addition, many directories are located on the Web. Web-based directories are easy and quick to use. They also provide advertising opportunities similar to those in print directories.

Online advertising is like outdoor and transit advertising in some ways. The main way is that the ad must grab attention quickly and in a few attention-getting words and graphics.

Online promotion is also similar to broadcast advertising. Online promotion can use sound, motion, and actors to convey marketing messages. Many Web sites have videos of commercials that can be played on the Web site. Some advertisers

are developing "filmlets," that is, little promotional films that are available only on their Web sites.



Reality Check

Describe at least one ad that you have seen on the Internet. How was it like a print or broadcast ad? How was it different?

Advantages and Disadvantages

Online promotion has many advantages. Online promotions are easy to place, change, update, and remove. Another advantage is that there is no limit to the amount of information you can place in an online ad or on a Web site. This quality is especially valuable for companies that sell complex products. For example, most people need a great deal of information about a car before they buy it, 41-4. A newspaper or magazine ad usually has only a photo and some



41-4

Many people do extensive research on the Internet when they are car shopping, but they make the actual car purchase at a bricks-and-mortar dealership.

basic information about one model. TV ads usually show only the car. The Web site of a car dealer or manufacturer can provide photographs and complete specifications and options for every model available.

Another advantage of online promotion is the ability to use multimedia presentations. In other words, online promotion can use audio and video. A technology called **streaming media** enables files of audio and video to be viewed while the files are being transmitted. This technology also enables live broadcasts from anywhere in the world. Viewers need to have special software, such as RealPlayer or NetCast, to view streaming media.

There are also disadvantages. One of the main disadvantages of the Internet is spam. Spam is the electronic equivalent of junk mail. **Spam** is e-mail that you did not ask for, that you do not want, from sources unknown to you. Almost everyone who has an Internet mailbox gets tens to hundreds of junk e-mails. Spam not only upsets potential customers, but it often obscures the useful or desired e-mail. Users often click through their e-mail, deleting the spam and accidentally deleting useful promotional e-mail. Figure 41-5 lists the advantages and disadvantages of online promotion.

Using the Internet for Promotion

Advantages

- Relatively inexpensive
- Messages are easy to place online
- Messages are instantly available to all viewers; therefore, the Internet is often considered the most timely medium
- Messages can be instantly changed, updated, or removed
- Messages can be customized for the individual
- Messages are always available, 24 hours a day, 365 days a year
- Can target a mass market or a specific market segment
- No length restrictions
- Can use sound, motion, and live action to provide complete product information and compelling messages

Disadvantages

- Reaches only those customers who use the Internet
- Viewers can ignore ads
- Some viewers find certain types of online ads, such as pop-ups, extremely annoying, and thus have a negative impression of the advertiser
- Most viewers find spam annoying
- Web sites and other online promotions must be kept up-to-date
- Maintaining an up-to-date Web site can be expensive
- To date, it has been difficult to prove that online promotion is effective, although marketing researchers are constantly trying to prove effectiveness
- Potential customers may have trouble finding your Web site
- Viewers must have special software to view multimedia presentations
- Technical problems (at your site or the customer's computer) can cause your Internet promotion to be inaccessible

41-5

Although Internet promotion has disadvantages as well as advantages, more and more businesses are developing Web sites and Internet advertising.



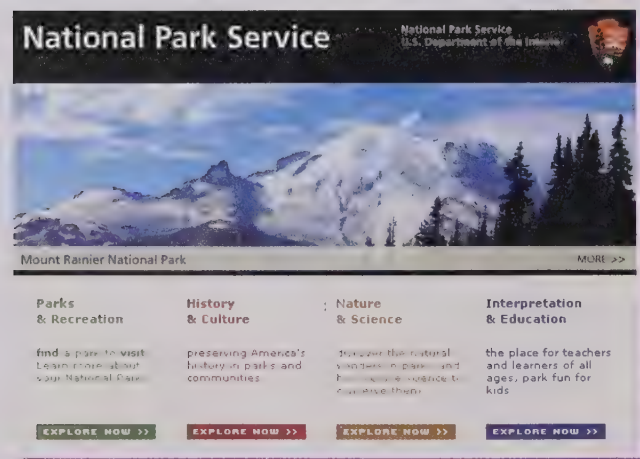
Reality Check

If you were an advertiser, would you have a Web site or advertise on the Internet? Give your reasons.

Two Basic Forms

There are two basic forms of online promotion: the Web site and the individual ad. As you learned in Chapter 29, a Web site is a collection of Web pages from one source. That source can be an individual, business, nonprofit organization, government, or military, 41-6.

In general, all Web sites are promotional. They provide information to potential customers or the public about the source that created the Web site. For example, if you want to attend a certain postsecondary school or college, you can go on the Web and find that school's Web site. On that Web site, you will find information about the school's program, entrance requirements, social activities, fees, and financial aid.



41-6

This Web site was developed by the National Park Service (a government agency) to promote the parks. It provides detailed information about each park and many photographs.

Online ads are like print and broadcast advertising in that they must be placed somewhere online. Online ads are often placed on the Web sites of other companies and organizations. The process of placing online ads is similar to the process of placing print and broadcast advertising. First the advertiser must determine which Web sites his or her potential customers are likely to visit. Then the advertiser contacts the owner of the Web site where the advertiser wants to place the online ad. The seller finds out how much the Web site will charge to place the ad there. The advertiser then has the Web site owner place the ad on the Web site. The advertiser then hopes that visitors to that Web site will see the ad, and then click on it for more information.

Elements of Promotion Online

Each element of the promotional mix can make use of the advantages of online promotion.

Online Advertising

The first ads to appear on the Web were the banner ads. The original **banner ad** was a rectangular ad that ran the width of a Web page. It usually appeared at the top of a Web page. Now banner ads are still rectangular or square, but are available in a variety of sizes and locations on the screen. Smaller banner ads are called *button ads*. They can appear anywhere on a Web page. Many banner ads are essentially print ads on a Web page. However, banner ads can have animation, which attracts the viewer's attention. Most banner ads have a link to the sponsor's Web site.

The next category consists of ads that "pop" into view. A **pop-up ad** is an online ad that pops into view after a Web page has appeared. The pop-up ad covers part of the

information on the Web page, and thus is impossible to ignore. Usually, the pop-up ad does not close until the viewer makes a response, such as clicking on the ad. Many people find pop-up ads extremely annoying. A **pop-under ad** is an online ad that hides “under” or “behind” a Web page. The pop-under ad only appears after the viewer leaves the Web site. An **out-of-frame ad** is an animated ad that jumps around a Web page.

The interstitial ad is most like a TV commercial. An **interstitial ad** is an ad that displays while the viewer is waiting for a Web page to download. Interstitial ads are 15 to 30 seconds long and have high-quality sound and video. The main disadvantage of this format is that viewers may lack the software necessary to view the ad.

Online Public Relations

Visit the Web site of almost any major corporation, and you will find a link to information about the company’s charitable and community activities, 41-7. Sometimes the link is easy to find. At McDonald’s Web site, www.mcdonalds.com/usa.html, there is a link labeled *Good Works*. For other companies, you may have to search a little. The information is usually found under the link “About Us” or “Our Company” or “Company Info.” Then the link will take you to another page with links such as “Social Responsibility” or “Community Relations.” For example, on the Gap Web site (www.gap.com) at the very bottom on the page in small letters is the link “Company Info.” When you click on this link, you go to a page with more links, one of which is “Social Responsibility.”

The Internet is also a great place to advertise fund-raisers and community events. In addition, companies can place Internet ads on the Web site of a charity that they support. For example, Spartan Stores supports the Special Olympics Michigan. They have placed a link with their name

on the Web site of the Special Olympics Michigan (www.somi.org). When you visit the Special Olympics Michigan Web site, you see that Spartan Stores is a statewide partner. If you click on the link, it tells you how Spartan supports SOMI and has a link to the Spartan Web site.

Many Web sites also have a special link for the media. Press releases are often available, as well as biographies of corporate officers and promotional photographs.

Online Sales Promotion

Many companies use the Web as a place to connect with potential customers through sales promotions. Some companies use their Web sites to offer coupons and rebates. Coupons and certificates for rebates can be downloaded from the Web site. Many also offer opportunities for customers to enter contests and sweepstakes.

In addition, many companies are using the unique abilities of the Web to provide entertainment that also functions as sales promotion. Many companies that sell snack products and toys have links on their Web sites for games and movies to entertain potential buyers, while exposing them to ads or information about their products. One example is the Nabisco Web site for Oreo cookies (www.nabiscoworld.com/oreo). This type of promotion is called *advergaming*, and companies like Skyworks specialize in developing and selling these games to advertisers.

Online Personal Selling

Most online promotion is nonpersonal, that is, the same message is used for all recipients. However, the Internet provides the potential for personal promotion, 41-8. Personal promotion occurs when the seller and potential customer communicate one-to-one in real time, and the seller can customize the message to meet that specific customer’s needs. The technology of instant

Online Public Relations

Company Information

The screenshot shows the Lillian Vernon website. At the top, there's a navigation bar with links: shopping cart (0 items), wish list, SEARCH (enter item # or keyword), and GO. Below this is a secondary navigation bar with links: order from catalog, view catalogs online, order status, my account, and customer service. A horizontal menu contains categories: Holidays & Celebrations, Lilly's Kids, Organization, Home & Office, Garden & Outdoor, Bags, Jewelry & Accessories, Personalize It!, and SALE. The main content area is titled 'ABOUT LILLIAN VERNON' and includes a sidebar with links: Sign In or Create an Account, Recently Viewed Items, Affiliate Network, Career Opportunities, Community Outreach, Company Timeline, Corporate Sales, > In the News, Lillian's Corner, and Outlet Stores. The main text area is titled 'IN THE NEWS' and contains several paragraphs of text, including a quote from David C. Hochberg, Vice President, Public Affairs.

Lillian Vernon

shopping cart 0 items wish list SEARCH enter item # or keyword GO

order from catalog view catalogs online order status my account customer service

Holidays & Celebrations Lilly's Kids Organization Home & Office Garden & Outdoor Bags, Jewelry & Accessories Personalize It! SALE

Sign In or Create an Account to take advantage of great member benefits. Recently Viewed Items

ABOUT LILLIAN VERNON

[About Lillian Vernon](#) > In the News

IN THE NEWS

Affiliate Network

The Lillian Vernon Public Affairs Department creates public awareness of Lillian Vernon and the Company she built. This Department also acts as a liaison for non-profit organizations, the media, and organizations that want Lillian as a guest speaker.

Career Opportunities

Community Outreach

Lillian Vernon Corporation is constantly evolving .. and that means news! Whether it's the introduction of new products or a feature on Lillian's success as a female entrepreneur, press releases like those below are issued to keep the media current on our activities.

Company Timeline

Corporate Sales

Journalists and editors interested in borrowing samples or images of any of our products, a press kit, or Lillian's tips on decorating, entertaining and gift-giving should contact

> In the News

David C. Hochberg
Vice President, Public Affairs
Lillian Vernon Corporation
445 Hamilton Ave
White Plains, NY 10601
914-872-3500
Fax: 914-872-3502
dch@lillianvernon.com

Lillian's Corner

Outlet Stores

Community Activities

The screenshot shows the Lillian Vernon website's 'Community Activities' page. The layout is similar to the previous page, but the main content area is titled 'COMMUNITY OUTREACH'. It includes a sidebar with links: Sign In or Create an Account, Recently Viewed Items, Affiliate Network, Career Opportunities, > Community Outreach, Company Timeline, Corporate Sales, In the News, Lillian's Corner, and Outlet Stores. The main text area is titled 'COMMUNITY OUTREACH' and contains several paragraphs of text, including a quote from David C. Hochberg, Vice President, Public Affairs.

Lillian Vernon

shopping cart 0 items wish list SEARCH enter item # or keyword GO

order from catalog view catalogs online order status my account customer service

Holidays & Celebrations Lilly's Kids Organization Home & Office Garden & Outdoor Bags, Jewelry & Accessories Personalize It! SALE

Sign In or Create an Account to take advantage of great member benefits. Recently Viewed Items

ABOUT LILLIAN VERNON

[About Lillian Vernon](#) > Community Outreach

COMMUNITY OUTREACH

Affiliate Network

Lillian Vernon Corporation is a socially responsible Company and has donated funds and merchandise in support of worthwhile causes to more than 5,000 civic, religious and non-profit organizations.

Career Opportunities

> Community Outreach

The Company has partnered with many national charities. We support these organizations in our catalogs and website. Past recipients of these initiatives have included Literacy Volunteers of America, Toys for Tots, and Ronald McDonald Houses. The Company has partnered with South Hampton Roads Habitat For Humanity, a local affiliate of Habitat for Humanity International. Lillian Vernon staff built a house in Chesapeake, Virginia for a family in need, as well as donating a portion of the proceeds from catalog revenues.

Company Timeline

Corporate Sales

History of Charitable Contributions

These are our past contributions in support of worthwhile causes.

- 3,000 ornaments for the Memorial Christmas Tree at the site of the World Trade Center
- Toys for the children of police and firefighters who perished at the World Trade Center
- Promotion to benefit rescuers at the World Trade Center
- Over \$250,000 in toys for 145 Ronald McDonald Houses in 48 states.
- Educational supplies to the Reading By 9 Children's Program in Maryland
- 10,000 toys to the United States Marines Toys For Tots Program
- Sheets, blankets and quilts for hurricane victims in Florida, Virginia and Honduras

In the News

Lillian's Corner

Outlet Stores

Many businesses include public relations and community activity information on their Web sites.

messaging enables customer and seller to exchange messages in real time via Internet, as if they were speaking over the telephone.

The seller can answer the customer's specific questions, just as a telemarketer does over the telephone.



41-8

Personal promotion occurs online when a salesperson interacts with a customer in real time, for example, through instant messaging.

Customer Service Online

Many companies are using e-mail and the power of the Internet to build stronger customer relationships. For example, suppose you order a product from a company, either over the phone or through a Web site. The company will e-mail you a confirmation. This confirmation will state what you bought and when you should receive it. The e-mail might also suggest that you go to the company's Web site to track the progress of your order.

On many company Web sites you can also e-mail the company with any questions or complaints. Someone from the company will reply with a personalized response to your question. Some companies get so much e-mail that they have automated responses; these responses would not be personal selling.

The Web Site

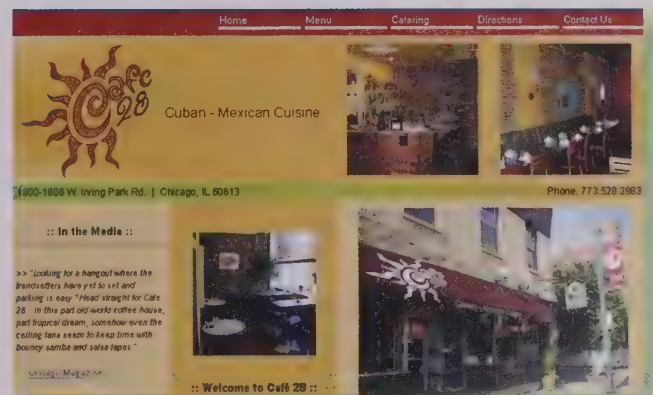
In the mid-1990s, there were very few commercial Web sites. Amazon.com was one of the first retailers to sell only online

through their Web site. Very few bricks-and-mortar companies had Web sites. In fact, many people in business doubted whether commerce on the Internet would be successful.

Less than ten years later, most major bricks-and-mortar retailers and service businesses have a Web site, 41-9. It is still not clear how much selling over the Internet contributes to bricks-and-mortar businesses' revenues. However, it is pretty much expected that an established consumer business will have a Web site.

Many B2B businesses also have Web sites. B2B businesses often depend on their Web sites to provide technical information about their products. Promoting, buying, and selling over the Internet is an essential part of many B2B businesses.

Advertising the Web address of a bricks-and-mortar business has also become almost a requirement. If you look at print, broadcast, and specialty advertising, you will notice that a Web address usually appears somewhere in the ad. If a business does not have a Web site, the impression is that it is behind the times technologically.



Courtesy of Cafe 28, www.cafe28.org

41-9

Many restaurants have Web sites, even though customers do not buy food or make reservations online. The purpose of the Web site is to tell the potential customer about the restaurant and how wonderful the atmosphere and food are.

For businesses that depend totally or mostly on their Web sites for their revenues, the challenge is slightly different. For these businesses, they must get potential customers to visit their Web sites. These businesses must advertise their Web site in a variety of media, including print and online. They must choose the media that their target market is most likely to see or hear. These businesses place online ads in search engines and on Web sites of related businesses.



Reality Check

Describe a print or broadcast ad that you have seen that includes the advertiser's Web address.

Online Strategies

There are several strategies that businesses use to advertise online. These strategies include intrusive, permission, search-based, and viral. Intrusive and permission advertising are not new concepts. They existed before the Internet and World Wide Web; however, these terms did not become popular until advertising on the Web made these two strategies more obvious. Search-based advertising developed specifically as a result of Internet technology. Viral marketing is a new term, but the concept has been used before the Internet.

Intrusive Promotion

Intrusive promotion is any promotional message that interrupts what the viewer is doing or that the receiver did not request. TV and radio commercials are intrusive promotion. Telemarketing, direct mail, billboards, faxed ads, and any ads you see while a captive audience, such as while riding a bus, are considered intrusive

promotion. Consumers have learned to tolerate or ignore intrusive promotion. One way to avoid intrusive promotions from telemarketers is to be added to the National Do Not Call Registry (www.donotcall.gov), 41-10.

Most online advertising is intrusive. However, some forms are so intrusive that they are annoying. Pop-ups and out-of-frame ads cover the material that the viewer wants to see. These ads are often hard to get rid of. Often, when you click to close a pop-up, another one opens in its place. Pop-up ads have become so annoying that computer users have installed pop-up blockers. Pop-up blockers prevent pop-up ads from appearing on the user's screen even though the ad is

NATIONAL DO NOT CALL REGISTRY—A FREE CONSUMER SERVICE FROM THE FEDERAL GOVERNMENT

— It's your call. —



The Federal Government has created the **NATIONAL DO NOT CALL REGISTRY**—the free, easy way to reduce the number of telemarketing calls you get. Now you can put your phone number on one national do not call list. To register or to get information, visit **DONOTCALL.GOV** or call **1-888-382-1222** from the phone you want to register.



**NATIONAL
DO NOT CALL
REGISTRY**

A FREE SERVICE OF THE FEDERAL GOVERNMENT
REGISTER AT **DONOTCALL.GOV** OR CALL **1-888-382-1222**
TTY: 800 295 4234

National Do Not Call Registry. www.donotcall.gov

41-10

The National Do Not Call Registry is designed to protect consumers from intrusive promotions from telemarketers.

part of the Web site being opened. Although some users find pop-up windows distracting, most users feel that pop-up windows are acceptable if done in small numbers. Many advertisers continue to advertise using pop-up windows and pop-up windows for several reasons. Pop-up windows still generate the highest rate of sales on the Internet. Many advertisers are receiving good results from using pop-up windows.



Reality Check

Describe intrusive advertising that you have seen. What aspect of the ad did you find most annoying?

Permission Promotion

Many online advertisers are beginning to discover that intrusive advertising can drive potential customers away. These advertisers are making changes in the strategies they use for online advertising. They are beginning to use permission promotion.

Permission promotion, also called *opt-in marketing*, is the opposite of intrusive promotion. In **permission promotion**, the advertiser obtains permission from each customer to send him or her promotional messages. This approach works very well on a Web site because it is easy to ask for permission. It also enables the advertiser to compile a list of potential customers who are very interested in his or her products.

How does permission marketing work? Permission marketing usually takes place once the potential customer has arrived at the Web site. The viewer has visited a particular Web site because he or she is interested in the product. At some point on the Web page, there is a section that asks if the viewer wants more information. If yes, the viewer is invited to fill out an online form with his or her name and e-mail address. The sponsor of the Web site then can send

promotional materials to this customer at the e-mail address provided. Usually, the promotional messages have an option for “opting out” of the permission advertising.

A very useful form of permission promotion is the online newsletter. When potential customers visit the Web site, they are asked if they would like to receive a free e-mail newsletter on a topic. The topic is usually relevant to the products sold on the Web site. The customers fill in an online form with their names and e-mail addresses. The Web site’s sponsor then sends these customers regular electronic newsletters that contain information and promotional materials.

The newsletters are especially good when a person is looking for information on a specific topic. For example, suppose you are having trouble getting organized. You enter the keywords “get organized” into a search engine. One of the Web addresses that appears is www.getorganizednow.com. You visit that Web site and find a great deal of useful information, plus advertising for products to help you get organized. There is a link to sign up for a free newsletter called *Get Organized Now! Newsletter*, 41-11. You click on the link, enter your name and e-mail address. You start getting the newsletter in your e-mail inbox. The newsletter is a form of permission promotion because you signed up to receive it. The newsletter opens with a personal greeting that includes your first name. There are a large number of excellent tips on how to get organized, plus advertising for the Web site’s products. If you decide you no longer want to receive the newsletter, there is an “unsubscribe” link at the bottom of each newsletter.

Search-Based Promotion

Search-based promotion evolved with the development of the World Wide Web and search engines. It is a type of permission advertising. Potential customers go to the

Get ... Organized Now!

Get Organized Now!

There's No Better Time to Get Organized,
Than to Get Organized Now!

Organize your home. Organize your office. Organize your life.

Home	Contact Us	About Us/Media	Tell A Friend	Fan Club	Place an Ad	Affiliate Program
Downloads	Newsletter	Past Newsletters	Quick Tip	Reader Tip	Clinic	Forum
Checklist	Articles	Inspiration	Web Poll	Slideshows	E-Courses	Recipes
Tips-Home	Tips-Office	Easy Organizer	Bill Paying	Christmas Planner	TuffBags	FileWise
To Do List	Be a PO	PO Guide	Marketing Guide	Better Business	Marketing Ideas	Our Store



Welcome to the Get Organized Now! Web site, where you'll discover thousands of tips and ideas to help you organize your home, organize your office and organize your life!

Attention: First-time Visitors
If you're a first-time visitor, [click here](#) for a site overview.

Maria Gracia
Author of *Finally Organized, Finally Free*

Like Our Site?

[Click Here To Tell a Friend!](#)

Free Get Organized Now! Idea-Pak
The free Get Organized Now! Idea-Pak is filled with tips and ideas to help you organize your home, your office, your time and your life!

Free Get Organized Now! Newsletter
Want hundreds of little-known tips to help you organize your home, your office and your life? Get our free, weekly Get Organized Now! E-mail Newsletter. It's read by over **128,415 subscribers**, and growing each month.

We respect your privacy. Your e-mail address will never be shared with or sold to anyone.

Get Your Free Get Organized Now! Idea-Pak
Discover dozens of ideas to help you organize your home, your office and your life! To get your free idea-pak instantly, enter your first name and full e-mail address. Then click Submit.

Your First Name:

Your E-mail Address:

We value your privacy and will not share or sell your e-mail address.

Courtesy of Maria Gracia, www.getorganizednow.com, 12/30/04

Many online newsletters are a form of permission promotion because you are invited to sign up, and you can opt out ("unsubscribe") whenever you want. Most newsletters contain some promotion for the products of the sponsor. On this Web site, when you click on Free Get Organized Now! Newsletter, you are taken to a page where you can sign up to receive it.

Web when they need a product. They use a search engine, such as Google, or a Web directory, such as Yahoo, to find Web sites that sell the product they are looking for. Customers type the name of the product they are looking for into the search engine. The search engine delivers a list of Web sites that either sell or have information about that product. Some advertisements also appear on the Web page.

For example, suppose you want to buy a specific brand of running shoes online. Open a search engine or Web directory. Type "Buy," then the brand name, and then "running shoes online." The search engine or directory will deliver a list of Web sites and advertisements for that specific brand. From there, you can choose which Web sites to visit.

Viral Marketing

Viral marketing sounds sinister, but it is basically the Internet version of word-of-mouth publicity. In fact, someone has jokingly called viral marketing “word of mouse.” **Viral marketing** is a promotional message that is set up so that recipients of the message pass it on to others. The classic example of viral marketing was carried out by Hotmail.com. Hotmail gave away free

e-mail services. Every e-mail message sent via Hotmail had a promotional message at the bottom: “Get your private, free e-mail at <http://www.hotmail.com/>.” As a result, every person who signed up and used Hotmail sent Hotmail promotions to everyone he or she e-mailed. If each Hotmail e-mail user sends e-mail to just two other people, who each then send it to two more people, the number of people seeing the Hotmail message grows exponentially.

CHAPTER 41 REVIEW

Remember This

- Some of the reasons that marketers are excited about the Internet include the fact that advertising messages are always available, the Internet is popular with young people, and the Internet is global.
- The Internet has some similarities to print, direct mail, directories, outdoor, transit, and broadcast advertising.
- Advantages of the Internet include no limit on the amount of information, ability to use audio and video, messages easy to place, and low relative cost. Disadvantages include only people with Internet access can be reached, spam, viewers can ignore ads, and maintaining a Web site can be time-consuming and expensive.
- The two basic forms of online promotion are the Web site and the individual ad.
- The Internet can be used for all four elements of promotion: public relations, sales promotion, personal selling and customer service, and advertising.
- Types of Internet ads include (1) banner ads, (2) pop-up ads, (3) pop-under ads, (4) out-of-frame ads, and (5) interstitials.
- Intrusive promotion interrupts what the viewer is doing or is a message that the viewer did not request. Permission promotion is only sent to those potential customers who requested it.

Review Concepts

1. What do you call promotion that occurs via the Internet?
2. What kinds of promotion can be done on the Internet?
3. How is the Internet similar to other advertising media?
4. List at least three advantages and three disadvantages of the Internet for promotion.
5. Give an example of each of the four elements of promotion online.
6. Describe five types of Web ads.
7. Why do most businesses have a Web site, even if they cannot prove that the Web site increases sales?
8. Give an example of intrusive promotion.
9. What is the difference between intrusive promotion and permission promotion?
10. To what kind of non-Internet promotion is viral marketing similar?

Think Critically

1. The amount of Internet advertising is expected to increase over the next few years. Do you think that some of the older media will become obsolete? Explain your answer.
2. Imagine that you are planning to buy a car, but your budget is small. What are the advantages and disadvantages of shopping on the Web as opposed to the bricks-and-mortar dealerships?
3. How does personal selling occur online?
4. Give an example of customer service provided online.
5. What do you like the best and the least about the Internet?

6. Why do people find pop-up ads annoying?
7. Imagine that you are planning to open a small retail business. Would you advertise on the Internet? Would you have a Web page?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out if the company has a Web site. Ask the manager why or why not. If it does have a Web site, ask how useful it is for increasing sales.
2. Find a company that advertises both online and offline. Create a poster that shows the relationship between offline and online advertising. Show offline advertisements for the company that include the Web address. Print the home page and add it to the poster. Find ads for the company on other Web sites. Print them and add them to the poster.

Explore Careers

1. Use library and Internet resources to find out what the career of Webmaster involves. Find a job description and print it. Visit the Web site of the International Webmasters Association (www.iwanet.org). How could membership in this organization help you in a career as a Webmaster? Visit a job Web site such as www.monster.com or www.ajb.dni.us (America's Job Bank) and search for Webmaster jobs. Browse

through the available jobs. Choose one. What will the person in this job do? What are the requirements? Would you like this job? Explain why or why not.

2. Computers are necessary for nearly every aspect of modern business. Read the article "Computer Systems Design and Related Services" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What does the NAICS number in the upper right hand corner of the first page stand for? List all the careers (occupations) mentioned in this article, along with a brief description of the career. Use library and Internet resources and the *Occupational Outlook Handbook* to explore one of the careers in further depth. Describe the importance of someone in this career to the company where he or she works. Would you like this career? Explain why or why not.

Connect to the Internet

1. Does your school have a Web site? If not, find another school that does have a Web site. What information is available? What links are available from this site? Did you find any advertising? Is the site easy to use? What is missing? How would you change the Web site?
2. Visit the Web site of the Better Business Bureau Online, www.bbbonline.org. What information is available on this Web site? What does this organization do to ensure safe online shopping? What other Web sites are linked to this site?



How can you
sell products
effectively?



PART 8 **SELLING** **DYNAMICS**

42 What Is Selling?

43 The Sales Process: Approach

44 The Sales Process: Presentation

45 The Sales Process: Close

46 Customer Service

Marketing Terms

personal selling
inside sales
outside sales
retail sales
consumer sales
telemarketing
call center
business-to-business sales
sales representatives
order getting
order taking
sales support
sales process

After studying this chapter,
you will be able to

- compare and contrast inside sales with outside sales.
- compare and contrast consumer sales with business-to-business sales.
- describe the three categories of sales tasks.
- explain the three stages in the sales process.
- list three areas in which salespeople need skills.
- describe the three types of personal qualities that salespeople need.

Have you ever had an experience similar to this one?

"It's almost Mother's Day! What shall I get her?" I wondered as I entered the jewelry store. A friendly looking sales associate approached me. "How can I help you today?" asked the sales associate with a friendly smile. His words made me realize that help was just what I needed, 42-1.

The sales associate asked me questions about my mother's style and my price range. He showed me several bracelets and explained the benefits of each. He helped me narrow down my choice to a simple, yet beautiful, bracelet. I left the store feeling pleased with my purchase.



42-1

Personal selling helps customers make satisfying buying decisions.

What Is Personal Selling?

Personal selling is the process of helping customers find solutions to problems created by their needs and wants. The purpose of personal selling is to influence customers to buy the product you are selling.

In Part 7 you learned about nonpersonal selling, also known as promotion. In nonpersonal selling, the same message is delivered to all customers. The major form of nonpersonal selling is advertising. In personal selling, an individualized message is presented to each customer. The salesperson adjusts the message to meet the needs of each customer.



Reality Check

Think of a situation in which you (or someone you were with) bought something from a salesperson. How did the salesperson individualize the message for you?

Where Do Salespeople Work?

Salespeople work in malls, sports arenas, restaurants, museums, and department stores, 42-2. Salespeople also work for manufacturers, corporations, and service businesses. Salespeople are involved wherever customers buy things.

Salespeople work in two environments: inside and outside. **Inside sales** is selling that is done from the seller's place of business. An example is the salesperson in a department store. **Outside sales** takes place outside the seller's place of business. Often the salesperson goes to the customer's home or place of business. The Avon representative who comes to your home to sell cosmetics is an example of consumer outside sales. Trade



Photo courtesy of The Mills Corp.

42-2

Many salespeople work in malls.

shows are also part of outside sales. Both the sellers and the customers travel to a trade show.

Inside Sales

Retail stores are the most common places for inside sales. Retailers are defined as businesses that sell to the final consumer. Therefore, selling to the final consumer in a store is called **retail sales**. This type of selling is also called **consumer sales**. However, both terms are sometimes used to include nonstore sales, and nonstore sales are often outside sales. Salespeople in retail include *sales associates*, *salesclerks*, and *cashiers*. Cashiers in restaurants, theaters, and other sports and entertainment establishments are considered part of retail sales.

Inside sales also includes selling over the telephone. Consumer and business selling can be conducted over the telephone. **Telemarketing** is personal selling done over the telephone. Many retail companies have call centers. A **call center** is an office equipped with a large number of telephones. Each telemarketer usually has a headphone, so that he or she can record orders on a computer, 42-3.

Some call centers specialize in *inbound calls*; that is, customers call into the center. For example, Lands' End is a company that sells clothing, luggage, and products for the home. When customers want to order items from Lands' End, they call an inbound call center.

Other call centers specialize in *outbound calls*; that is, the salespeople call out to the customers. For example, a local newspaper might have a telemarketer. This salesperson might call local businesses to ask them to advertise in the newspaper.

Many nonprofit organizations use outbound call centers to raise money for their organizations. These people are usually called *fund-raisers*, but their tasks are very similar to a salesperson's tasks.

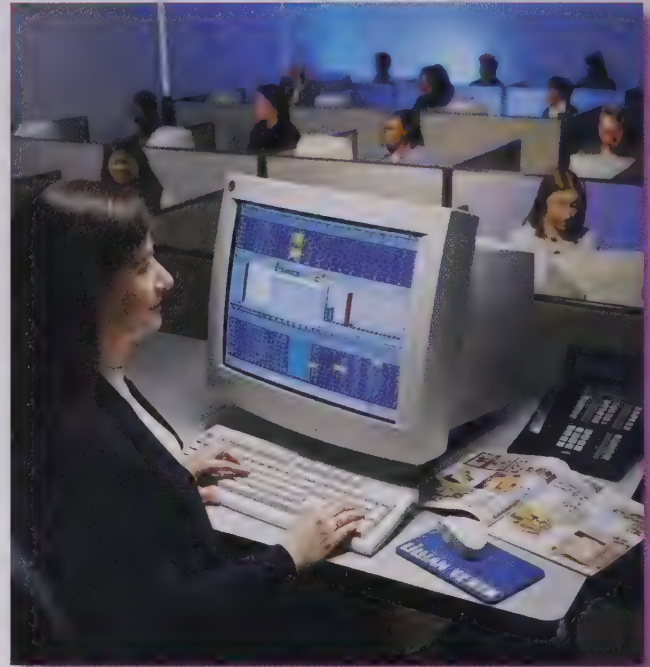


Photo courtesy of Lillian Vernon

42-3

This is the inbound call center for the catalog company, Lillian Vernon. The supervisor, at the front of the photo, oversees the telemarketers and helps them with any problems.

The World Wide Web can be used for personal sales. The customer can visit a Web site, where a salesperson will interact with the customer in real time. If the customer visits a Web site and does not interact with a person in real time, then it is not a personal sales situation.



Reality Check

Have you ever purchased a product over the telephone? Describe how the salesperson helped you with your purchase.

Outside Sales

Where does the retail store buy the products it sells to customers? Where does a school system buy desks for students?

Where does a construction company buy a bulldozer? In most of these situations, the customer does not go anywhere. The salesperson goes to the customer's place of business. Outside sales includes all the selling situations in which the salesperson goes to the customer.

The most common outside sales situations are business-to-business sales. **Business-to-business sales (B2B sales)** is sales made from one business to another business. B2B sales is also called *field sales*, *industrial sales*, and *organizational sales*. Companies that sell equipment and raw materials to manufacturers are involved in B2B sales. Manufacturers that sell finished products to retailers are involved in B2B sales. Salespeople in B2B sales are called

sales representatives (sales reps for short). They represent the businesses whose products they sell, 42-4.

The sales that occur along the steps of the distribution channel are all B2B sales. They are also outside sales situations. Think about a bag of chocolate chip cookies on your grocer's shelf. Salespeople sold the flour, eggs, shortening, sugar, and chocolate chips to the cookie company. Another salesperson sold the mixing and baking equipment. Another sold the ovens and cooling racks. Another sold the supplies used to keep the cookie factory clean. Another sold the packaging materials. Finally, a salesperson from the cookie company sold the cookies to the grocer.



Photo courtesy of Ben E. Keith Foods

42-4

A sales representative for food products (the man with the notebook) visits the restaurant manager to make sure that the restaurant has the products it needs.

When a business sells to a government, it is often referred to as *government sales*. When a business sells to a nonprofit organization, such as a school or hospital, it is often called *institutional sales*. Often the term *B2B sales* includes government and institutional sales.

Another outside sales situation is the trade show. As you learned in Chapter 36, a trade show is an exhibit of products of interest to a specific industry. At the trade show, the manufacturers and distributors set up exhibit booths to display their products. Sales representatives staff the booths. The sales reps answer questions, demonstrate the products, and encourage visitors to purchase the products.

For example, the American Dental Association is a trade association for dentists. At their annual convention, a trade show is held. Businesses that want to sell products to dentists, such as dental drill manufacturers, are invited to buy exhibit space. During the convention, the manufacturers' sales representatives set up exhibits of their drills. The dentists visit the exhibits, and the sales representatives explain how their products will help the dentists do a better job. The sales representatives encourage the dentists to place orders for their products. The sales representatives might give away specialty items, such as a pen, imprinted with the name of the drill manufacturer.

There are also situations in the consumer market in which salespeople go to the customer's home. This type of consumer sales is called *direct selling* or *consumer field sales*, 42-5. Several consumer companies use direct selling as their main method of sales. A very successful method of direct selling is called a *party plan*. The sales representative holds a party, either at his or her home or the home of a potential customer. The products are demonstrated at the party, and the guests buy products. Examples of such businesses include Tupperware Corporation, The Pampered Chef, Ltd., and Discovery Toys, Inc.



42-5

This consumer field sales representative goes to consumers' homes, where she presents upholstery and drapery materials. She helps consumers decide which fabrics will look best in their homes. She then sells them the fabric and the service of making the drapes or upholstering the furniture.



Reality Check

Have you had any experience with a salesperson coming to your home? Name the product and describe how the salesperson tried to sell it to you.

Consumer Sales vs. Business-to-Business Sales

Although the basic selling process is the same in both consumer and B2B sales, there are some differences. Most consumer sales jobs are inside sales. Most B2B sales jobs are outside sales. Most consumer sales consist of a small number of relatively inexpensive

items. Consumer items also tend to be fairly simple in terms of technology.

B2B sales often involve large numbers of items. Even if the individual items are not costly, the large numbers result in large costs. For example, suppose a business wants to buy a stapler for each of its 100 office workers. At about \$12 each, the total would be \$1,200. In addition, many business products are large, technically complex, and expensive. For example, if a business decides to buy a telecommunications system, it might cost hundreds of thousands of dollars. These situations require a very knowledgeable salesperson to help the customer make the best purchase decision.

What Do Salespeople Do?

There are three categories of tasks in sales: (1) order getting, (2) order taking, and (3) sales support. Sometimes each task is done by a different person. Sometimes the same person does all three tasks.

Order Getting

Order getting is the process most often associated with sales. **Order getting** is the process of finding customers and then influencing them to buy your product. Order getting uses the *sales process*. The sales process will be described later in this chapter.

In retail sales, the sales associates are the order getters. They must know the product and be able to present it to customers. They must also be able to approach new customers and persuade them to buy the product. Many retail stores train sales associates in product knowledge and sales techniques.

In B2B sales, the sales representatives are the order getters. Many of the products are quite technical. In order to persuade the business customer to buy the product, the sales representative needs technical

knowledge. Such sales representatives may have engineering degrees. The businesses that they represent may provide additional technical training.

Order Taking

As the term says, **order taking** is the recording of orders. Sometimes order getting and order taking occur together. However, in many situations the two processes are separate. Order taking involves recording the order, calculating charges, billing, and taking payment.

In order recording, information about the order must be properly recorded on an order form or in a computer, 42-6. Order information may include the catalog number, item description, quantity ordered, size, color, and any other necessary information. Accuracy is important. If the salesperson records the wrong catalog number, the customer will get the wrong product.



42-6

Some stores still use paper forms to record and calculate orders.

Calculating charges also requires accuracy. Calculating charges involves several steps:

1. Find the correct price for the item.
2. Multiply by the number of items ordered.
3. Apply discounts or coupons.
4. Add any additional charges for delivery or installation.
5. Add the proper taxes.

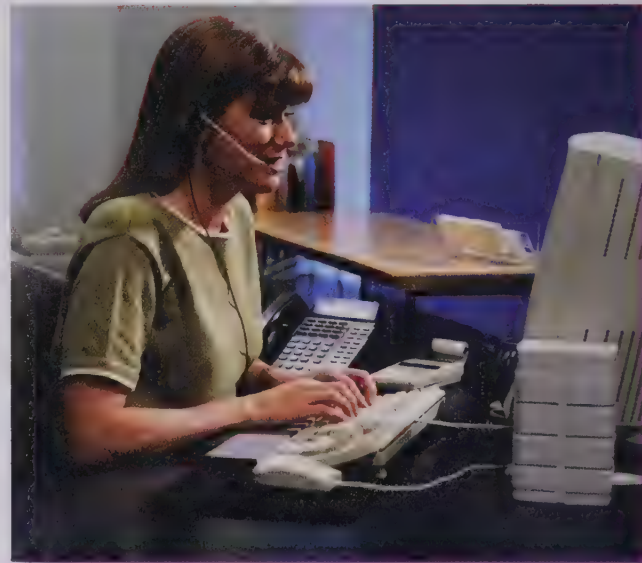
If errors result in charging the customer too much, the customer will be angry. If errors result in charging too little, the business will lose money. If the business loses too much money, it might have financial problems.

Taking payment is the third task of the order taker. First, the sale must be properly documented by a receipt. Then, the money or other forms of payment must be properly handled. Taking payment also involves making sure that credit cards are valid and that the money is not counterfeit.

In retail sales, the order takers are the sales associates, salesclerks, and cashiers. In telemarketing, salespeople take orders from customers over the telephone, 42-7. In outside sales, the sales representatives often take orders when they visit the customer. The sales representative may fill out a written order form or may enter the information into a laptop computer.

Sales Support

Sales support consists of the people behind the scenes who help sales representatives. Sales support is most common in B2B sales. The sales support staff is often the link between the sales representative, who is traveling, and the company's home office. Members of the sales support staff make sure that the sales representatives have the samples, brochures, and other materials they need. At the direction of the sales representative, support staff will send brochures and samples



42-7

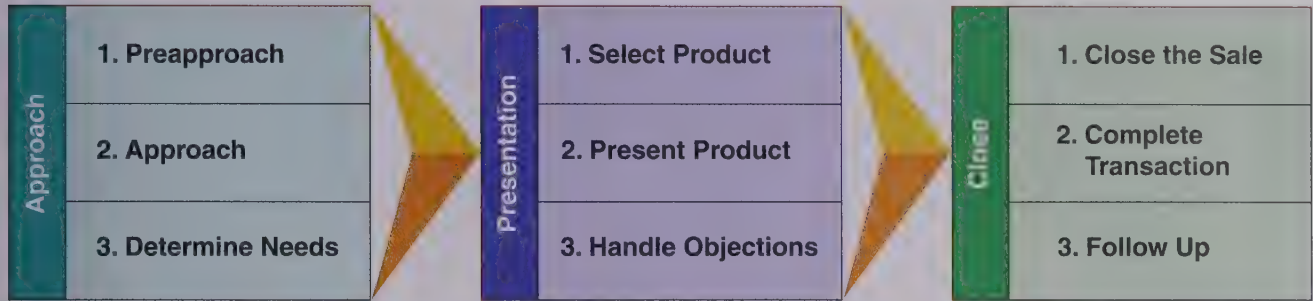
Many telemarketers use headphones to answer the phone. In this way, their hands are free to enter orders into the computer.

directly to potential customers. Support staff often work with orders once they are submitted. They make sure that the orders are properly filled and delivered.

The Sales Process

The **sales process** is a series of steps that a salesperson goes through to help the customer make a satisfying buying decision. Most order getters use this process. The sales process can be organized into three stages: (1) approach, (2) presentation, and (3) close, 42-8. Each of these stages has three steps. Each stage will be covered in more detail in its own chapter. The following is an overview of the sales process:

1. **Approach.** During the approach, the salesperson looks for customers, makes a connection, and learns about the customer's needs.
2. **Presentation.** During the presentation, the salesperson presents information about the product or demonstrates the



42-8

There are many steps in the sales process, but they can be organized into three stages.

product. The goal of the presentation is to show how the product meets the customer's needs and to give the customer reasons to buy the product. During this stage, the salesperson also answers customer's questions and objections.

3. **Close.** During the close, the salesperson obtains the customer's agreement to buy the product and takes the order. The salesperson also arranges for and takes payment. The close stage also includes following up with customers, to make sure that they are satisfied.

selling that product. Careers in sales provide great opportunities for financial and business success. Many corporations are headed by people who began their careers in sales.

Some people have a natural talent for sales. However, most people can learn the skills and develop the qualities that successful salespeople have. Many businesses provide sales training for their employees. Many community, technical, business, and four-year colleges provide courses in sales. You can also learn about sales through experiences with organizations such as the Girl Scouts and DECA.



Reality Check

Think of a recent sales situation in which you were involved. Describe what happened in terms of the three stages of the sales process.



Reality Check

What makes a good salesperson? List at least five qualities a good salesperson should have.

Is There a Career for You in Sales?

Open any newspaper to the "Help Wanted" section, and you will see a large number of ads for salespeople. Most businesses need someone to sell their products. Think of any good, service, or idea that interests you. You can probably find a job

Sales Skills

Top salespeople have skills in these three areas: communication, human relations, and technical knowledge, 42-9. Communication skills include listening carefully, speaking clearly, and expressing yourself well. Human relations skills include knowing how to relate to different kinds of people, how to be tactful, and how to ask good questions. Many companies provide training in communication and human relations skills.

**42-9**

You can develop the skills needed to be a successful salesperson. These skills are in the areas of communication, human relations, and technical knowledge.

Technical knowledge includes product knowledge, selling techniques, and computer skills. Some products are fairly easy to understand. Ice cream comes in a variety of flavors. You need to know which flavors you sell. Other products are much more complex. For example, an information technology system has many parts and can perform many functions. To sell the system, you need a thorough understanding of how the system works, the functions it can perform, and its special features. You also need to understand how a business works, so that you can match the computers' functions to the business's needs. Many companies provide product training for their own products.

Computers have become an essential part of the sales process. Computers are used

to place orders, keep records of sales and customers, and check product availability. Computers are also used for communication and financial analysis. Computer skills are a valuable asset to a salesperson.



Reality Check

Which sales skills do you already have?

Personal Qualities

Successful salespeople have certain personal qualities. These qualities include ethics, excellent work habits, and a good attitude, 42-10.

**42-10**

You can develop the personal qualities to be a successful salesperson. These qualities include ethics, excellent work habits, and a good attitude.

Ethics include the qualities of honesty, integrity, responsibility, and confidentiality. You learned about these qualities in

Chapter 5. These qualities are required for establishing trust with customers. For successful long-term relationships that lead to repeat sales, salespeople must establish trust with their customers. Salespeople who have strong ethics gain the respect of their customers.

In order to succeed in sales, salespeople must have excellent work habits. Excellent work habits include eagerness to learn, initiative, hard work, persistence, and goal-orientation.

Last but not least, a salesperson needs a good attitude. Salespeople often encounter difficult situations. For example, customers can be unreasonable and rude. You might lose a sale to a competitor. A salesperson needs to be able to bounce back from disappointments, learn from mistakes, and move on to the next sale with a positive attitude.

The qualities that make a salesperson successful also help a person achieve success in life. Everyone needs skills in communication, human relations, and computers. Everyone can benefit from strong ethics, excellent work habits, and a positive attitude.

**Reality Check**

Which positive personal qualities do you already have?

Cameron Johnson Entrepreneur Extraordinaire

At nine years old, Cameron started his first business. Using his new computer and printer, he printed and sold greeting cards and other stationery. At 12, he started a business selling Beanie Babies online. Cameron earned \$50,000 that year. During the following seven years, he developed 14 different Web-based businesses! Seven of them were sold for a profit. He closed a number of them for a variety of reasons. Cameron still runs two of the businesses while he is in college.

How Did He Get Started?

Cameron grew up with entrepreneurs. His father and grandfather run a Ford dealership started by his great-grandfather. His grandmother was also an entrepreneur. Her husband died when Cameron's mother was only 14. His grandmother took over and ran his business.

Cameron's family did not pressure him to start a business. However, he learned the basics of selling at a very early age. First, he sold vegetables from his family's farm by going door-to-door. Then, as part of school efforts to raise money, he sold various items. In fourth grade he sold several hundred raffle tickets in a few weeks and was the school's top seller. In fifth grade, he was the top seller of wrapping paper.

Cameron did not start out thinking about starting a business. When he got his computer at age nine, he just thought he would print greeting cards and sell them to cover costs and make a small profit.

Internet as Gateway to Business

The Internet "levels the playing field." In other words, small businesses can compete equally with larger businesses. The Internet



enabled Cameron to create his businesses with very little expense. He paid \$15 a month for Web site hosting. His customers did not know his age. He was only 12 when he started his Beanie Baby business. His customers might have guessed his age if they had spoken with him by phone. However, he communicated by e-mails. He knew how to write well and so was able to impress his customers. They could judge him based on his service, not his age.

When asked why he is so successful, Cameron modestly says, "I don't know, luck?" However, he does admit to a lot of hard work and the fact that he learned how to manage money at an early age. At the age of ten, Cameron's parents gave him a checking account. From this responsibility, Cameron learned how to manage his money.

When asked for advice for aspiring entrepreneurs, he recommends, "Learn to manage your money. Set goals for yourself, develop a plan to reach them; and most importantly, remember to reward yourself when you accomplish something great."

CHAPTER 42 REVIEW

Remember This

- Inside sales takes place in the seller's place of business. In outside sales, the salesperson goes to the customer.
- Consumer sales involves selling consumer products to the consumer market. Consumer sales is also called retail sales and is usually inside sales.
- Business sales refers to the selling of business products to the business market, including governments and organizations. Business sales is usually outside sales.
- The three categories of sales tasks are (1) order getting, (2) order taking, and (3) sales support.
- The three stages in the sales process are (1) approach, (2) presentation, and (3) close.
- Salespeople need skills in communication, human relations, and technical knowledge.
- Salespeople need strong ethics, excellent work habits, and a good attitude.

Review Concepts

1. What is the difference between personal selling and nonpersonal selling?
2. Explain the difference between inside sales and outside sales.
3. Where do most consumer sales take place?
4. Where do most business-to-business sales take place?

5. List five terms that are used to refer to B2B sales.
6. List three differences between consumer sales and B2B sales.
7. Describe three categories of sales tasks.
8. Describe the three main steps in the sales process.
9. Describe three sales skills.
10. Describe three personal qualities that salespeople need.

Think Critically

1. Imagine that you are applying for a sales position with a large corporation. Would you prefer an inside sales job or an outside sales job? Explain your choice.
2. Give an example of outside sales for the consumer market and for the B2B market.
3. What is the difference between an inbound call center and an outbound call center?
4. The party plan of selling has become very popular. Why do you think it has become a successful way of selling?
5. Think of a time when you purchased something or witnessed a purchase. What selling skills did you observe?
6. Describe the ideal salesperson.
7. Imagine that you are the sales manager for your favorite retail store. First describe the store, the type of products it sells, and its target market. Then develop a list of questions you would ask a person who is applying to be a sales associate for you.

CHAPTER 42 REVIEW

Connect to Business

1. If your workstation is in a retail store, ask your manager what they look for when they hire sales associates.
2. Visit a store and observe a salesperson. Did the salesperson follow the three stages of the sales process? Describe what the salesperson did in terms of the three stages of the sales process.

Explore Careers

1. Obtain a copy of a local Sunday newspaper, or, if your town is small, get the Sunday paper of the nearest large town or city. In the "Help Wanted" section, find the ads for sales positions. Count the number of sales ads. What kinds of companies are looking for salespeople? Make a list of companies looking for inside salespeople, and another list of the ones looking for outside sales. Which companies are selling B2B? Circle the B2B sales jobs. Is there a separate section in the Want Ads for retail sales and another for auto sales? If yes, make a separate count of the number of retail sales ads and the auto sales ads. Is there a separate section for telemarketers? Make a separate count of the number of ads for telemarketers. Why are there so many ads for salespeople?
2. Retail salespeople are critical to the success of retail business. Read the article

"Retail Salespersons" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Write a description of the typical retail sales job. If you were looking for a retail sales job, which store would you choose? Visit the Web site or contact the store to find out about available positions. What are the requirements for that position? Visit the Web site of the National Retail Federation (www.nrf.com). Browse this Web site. How can membership in this organization help you in a career in retail?

3. Automobiles are a major product sold to the consumer market. Read the article "Automobile Dealers" in the *Occupational Outlook Handbook*. How does the business cycle affect car sales? How has the Internet affected car sales? List the careers (occupations) available in the auto dealer industry, along with a brief description of each career. What kind of training do new car salespeople get? Visit the Web site of the National Automobile Dealers Association (www.nada.org). What kind of information about the industry can you learn from this Web site? How can membership in this organization help you in a career in auto sales? Check your local newspaper's want ads or visit a job search Web site such as www.ajb.dni.us (America's Job Bank) or www.monster.com. Would any of these jobs appeal to you? Explain why or why not.



Connect to the Internet

1. Visit two consumer Web sites. How is each site involved in selling? Which techniques are the same? Which techniques are different? Make a poster or a comparison sheet that compares the selling techniques and activities of the two companies.
2. Can you order a pizza from a Web site? Find a restaurant or pizza parlor that will allow you to order online.
3. Use the keywords "party plan company" to find the names of some companies that

sell using the party plan. One place to look is the Web site of the Direct Selling Association (www.dsa.org). Click the "Membership Directory" link. Choose one of the companies. Visit its Web site. What is the name of the company? What are its products? What is its target market? How did that company get started? How would you become one of their sales representatives? What is involved in one of their parties? Would you consider becoming one of their representatives or hosting one of their parties? Explain why or why not.

The Sales Process: Approach

Marketing Terms

preapproach
prospecting
prospect
potential customer
approach
service approach
greeting approach
merchandise approach
paraphrasing
empathy

After studying this chapter, you will be able to

- explain the three steps in the approach stage.
- describe three retail approaches.
- use observation, questioning, and listening to learn about customers' needs and wants.
- describe four types of questions.
- explain how paraphrasing is useful in learning about customers' needs and wants.

The approach stage is the beginning of the sales process. It is the stage during which the salesperson searches for, finds, and learns about potential customers. The approach stage consists of three steps: (1) preapproach, (2) approach, and (3) determine needs, 43-1. Each step has a goal. The goal of the preapproach is to find potential customers. The goal of the approach is to make a connection with the customer. The goal of the determine needs step is to discover what the customer needs and wants.

Preapproach

The **preapproach** consists of tasks that are performed before contact is made with a customer. Imagine that you want to start a landscaping business. You have already planned the services you will provide and

Approach	1. Preapproach
	2. Approach
	3. Determine Needs

43-1

The approach stage consists of all the steps involved in making contact with the customer and determining needs.

obtained the equipment you need. You have already done marketing research and decided to target small, local businesses that need landscaping services. Now you need to

find customers. Where could you find them?

You would look in sources that list small businesses, for example, the Yellow Pages, local newspapers, the Web, and the local chamber of commerce. The public library may have some other sources that list local businesses. You could also visit nearby businesses that might need your services, 43-2.

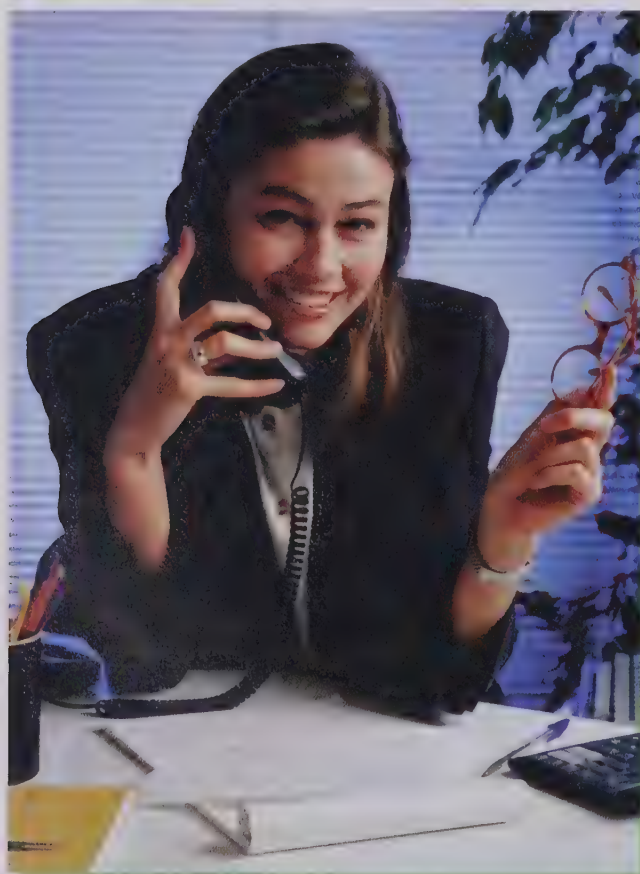
The process of looking for customers is called prospecting. *Prospecting* means searching and exploring. Think of the miners searching for gold during the California Gold Rush. In the context of selling, **prospecting** means searching for potential customers. A **prospect** is a person or business that may need the goods or services you offer. Another term for prospect is **potential customer**. The goal of prospecting is to generate a list of potential customers.

**43-2**

To find prospects, a landscaper might drive around the area to see which businesses might need landscaping services.

Prospecting is used most often in outside B2B sales. In retail situations, the customers come to the salesperson. In retail, the preapproach consists of observing the customers in the selling area and then deciding which one to approach.

The preapproach step includes preparation for the approach step. In the retail setting, preparation includes getting the selling area ready. Tasks include cleaning the area, stocking new merchandise, and arranging the products so that they look appealing. In outside sales, preparation includes gathering information about the prospects. The sales representative then calls each prospect and makes an appointment, 43-3.



43-3

Once the sales representative has gathered information on the prospects, he or she calls to make appointments.



Reality Check

Imagine that you are a sales associate at your favorite store. Describe what you would do during the preapproach step.

Approach

The **approach** is the step in which the salesperson makes the first in-person contact with a potential customer. In outside sales, the approach occurs at the appointment, when the sales representative first greets the customer. In retail sales, customers enter the selling area. The approach occurs when a sales associate walks up to a customer and begins speaking, 43-4.

The outside sales representative often first meets the customer in the customer's



43-4

In retail, the approach begins when the sales associate walks up to a customer and begins speaking.

office. The retail sales associate first meets the customer on the selling floor. In both situations, you have only a short amount of time to make a good impression and establish a connection with your customer. Many researchers say that strangers form an opinion of you within seven to 17 seconds. Many sales experts say that customers decide within four minutes whether they want to continue working with you. In those four minutes, you have to accomplish the following:

- get the customer's attention
- project a positive, professional image of yourself and your products
- show true caring, concern, and interest in the needs of the customer
- show that you are trustworthy and honest
- make the customer feel comfortable with you

There are some differences in approach between B2B sales and retail sales. For example, it is more common to shake the customer's hand in B2B sales than in retail sales. However, there are basics that apply to both situations:

- appropriate dress
- good posture
- a smile
- pleasant tone of voice
- clear speech
- direct eye contact
- focus on customer



Reality Check

Think of a salesperson who made a positive impression on you. Describe what it was about that salesperson that impressed you.

Retail Approach

Three types of approaches are often used in the retail setting: (1) the service approach, (2) the greeting approach, and (3) the merchandise approach. In addition, your supervisor may give you specific guidelines for your approach.

The **service approach** starts with the phrase "May I help you?" It is the most common approach and works well in many situations. Some companies discourage this approach because many customers respond almost automatically with some variation on "no thanks." Another wording for the service approach is "What can I help you with today?" This might lead to a fuller response from the customer. However, the customer might still say "Nothing" or "I'm just browsing." A good response to a "no thanks"-type response is "If you need anything, let me know."

The **greeting approach** consists of a friendly welcome to your store or department. Use words such as "hi," "hello," or "good afternoon." A genuine smile and eye contact help make a positive impression. When someone you know enters your store, use her or his name. Using a person's name is especially effective because it makes that person feel important. Customize what you say to each customer. If you know the customer, refer to something about him or her. If you do not know the customer, comment on something you can observe. If the customer is wearing a sports team T-shirt, comment on the standing of the team. A compliment can also be a good way to make a connection. A comment on the weather or traffic is trite; but it often works, especially if the weather or traffic is unusually bad.

In the **merchandise approach**, you start with a comment about the product. This approach works well when you notice which product the customer is considering, 43-5. For example, a customer in your sporting



43-5

The merchandise approach works well when you notice which product the customer is considering.

goods store is holding a running shoe. You might walk up to the customer and say, "That shoe is on sale today for half price." You have provided the customer with a money-saving tip, which can establish an immediate rapport. The following product features can be used in a merchandise approach: availability, color, dependability, material content, newness, price, quality, size, special features, style, and warranty.

Often a combination approach works best. For example, you observe a customer who is holding a fishing rod. You might say, "Hi, Mr. Campos. Those fishing poles just arrived today and are selling like crazy!" This approach combines the greeting and merchandise approaches. You have made the customer feel welcome, and at the same time you provided information that might help sell the item.

Imagine that you are on the sales floor of a sporting goods store. There are three customers in the store. Which one will you

approach? What will you say? Learning which customer to approach takes some time and experience. Observe (but do not stare) at customers. Look for signals that they need help. A person who picks up merchandise or is reading the package is a potential customer. A person who is holding a product and walking around may be looking for help. Watch people's behaviors and facial expressions. Then learn from each person's response to your approach.



Reality Check

Give an example from your experience of each of the three retail approaches. Mention the type of store and the products for sale.

Determine Needs

Your approach has been successful. The customer is looking at you and waiting for help. What do you do now? Should you show a product? Which product should you show? Should you explain the newest features? Which feature should you describe first?

You cannot answer any of these questions until you know what the customer needs and wants. There are three main ways to discover customer's needs and wants: (1) observation, (2) questioning, and (3) listening. As you are determining needs, keep in mind what you learned in Part 3 about understanding customers.

Observation

Observation is the first step in learning about your customer, 43-6. Observe customers to see what they are communicating nonverbally:

- manner of dress
- their speed and direction of movement



43-6

Observation can provide clues about your customers, but you have to ask questions and listen to determine their wants and needs.

- their facial expressions
- their companions
- their behavior toward the products around them

For example, if you hear someone speaking a foreign language, you might think that the person is from a different country. If you see a man walking quickly, you might think that he is in a hurry. If you see a person with downcast eyes, you might think that the person is tired or sad. If you see a woman with small children, you might think that she wants a quick answer because her children are making a fuss.

Remember that observation only gives you a clue about your customer. Use your observations to guide your approach and your questions. Avoid leaping to conclusions. For example, do not assume that the person speaking a foreign language does not know English; however, be prepared for the possibility that he or she might not. Your observations lead you to the next step: asking questions to learn more about your customer.



Reality Check

Give an example from your experience of observing someone to find out what he or she needed.

Questioning

The goal of questioning is to learn about customers' needs and wants. You will use the answers to determine which products to offer to satisfy those needs and wants.

Four types of questions are useful: yes/no, choice, clarifying, and open-ended. All are valuable, but they are useful in different situations, 43-7. *Yes/no questions* require a response of only yes or no. *Choice questions* offer the customer two choices, and request the customer to select one. *Clarifying questions* request the customer to provide more details about the product he or she wants. Clarifying questions often ask for details about the product. For example, "What size do you need?"

Open-ended questions request the customer to describe his or her wants and needs. Open-ended questions often begin with one of the five W's: *who*, *what*, *when*, *where*, and *why*. For example, who will be using the product? Why do you want this product? What problems will this product solve for you? Another good word to use is *how*. For example, how will you use this product? Another method is to say, "Tell me more about . . ."



43-7

The type of questions you ask depends on the situation and the customer.

Often, it is useful to start with an open-ended question. A yes/no question might not provide enough information. For example, "Are you looking for a gift?" is a yes/no question. However, it does not really give

you very much information. An open-ended question might be better. For example, "What are you looking for?" However, if the customer responds with "a gift," then you have not learned much. Another open-ended question is needed. For example, "Tell me about the person you are buying the gift for."

Paraphrasing is another useful technique.

Paraphrasing is restating what someone said, in different words. When you paraphrase, it is often helpful to use slightly different words than the customer used. For example, a customer walks into a clothing store. The salesperson asks, "What can I help you with today?" The customer answers, "We are going to a national park on vacation, and I need some casual clothes that I can wear hiking and camping." The salesperson responds by paraphrasing, "It sounds like you are looking for something comfortable but rugged."

Paraphrasing gives the salesperson the chance to make sure that he or she has correctly understood what the customer wants. It also gives the customer a chance to correct or add to the information, if the salesperson has misunderstood what the customer wants. Figure 43-8 summarizes the types of questions.

Types of Questions

Question Type	Description	Example
Yes/no	Requires only a <i>yes</i> or <i>no</i> response	Do you want fries with that?
Choice	Requests the customer to select between two choices	Do you want a dress shirt or a casual shirt?
Clarifying	Requests more details about the product	What kind of surface do you run on?
Open-ended	Invites the customer to describe wants and needs	How are you going to use this product?
Paraphrase	Restate in different words what the customer said	If I understand you correctly, you want an outfit that is casual but not sloppy.

43-8

Often you need to use a variety of question types to learn about your customer.

There are a few things to avoid when questioning customers. First, do not ask too many questions all at once. Too many questions might confuse or upset the customer. Second, avoid embarrassing questions, such as, "How old are you?" Third, do not make judgmental or critical comments. For example, do not say, "That dress makes you look fat." Figure 43-9 summarizes guidelines for questioning.



Reality Check

Give examples of open-ended and clarifying questions from your experience as a customer.

Listening

Questioning is useless if you do not listen to the response. Listening is skill that can be learned and improves with experience, 43-10. The best listeners use their ears, their eyes, and their empathy. **Empathy** is the awareness of another's feelings and the ability to understand those feelings.

What keeps you from really listening to someone? If you are talking, you cannot listen to the other person. If you are worrying about how you look or what you will say,

you cannot focus on what the other person is saying. If you are doing another task while someone is talking to you, it is difficult to really listen. The following are barriers to good listening:

- talking too much
- focusing on yourself instead of the customer
- worrying about what you will say next
- getting distracted by colleagues or other customers
- performing other tasks, such as answering the phone or tagging merchandise

There are many ways to improve your listening skills. One of the most helpful is to consciously focus on the customer. Face the customer and make eye contact. Pay attention to how much talking you do. If you talk too much, make a conscious effort to stop. Focus on the customer's words. Give the customer positive feedback. For example, nod your head in agreement or say, "I agree" or "I understand what you are saying."

Another way is to reduce the number of distractions. Usually it is better to complete an interaction with one customer before moving to the next customer. If you are required to work with more than

Guidelines for Questioning

Do's

- Use open-ended questions.
- Ask questions that begin with who, what, when, where, why, or how.
- Ask for details.
- Paraphrase the customer's request.
- Ask clarifying questions.

Don'ts

- Do not ask more than one or two questions at a time.
- Do not ask embarrassing questions.
- Do not make judgmental or critical comments.

43-9

Use your common sense when asking questions.

**43-10**

Listening is a skill that can be learned and improves with experience.

one customer at a time, consult with your supervisor on the best way to handle that situation. Similarly, if your job requires you to answer phones or perform other tasks while serving customers, get guidance from

your supervisor on the best way to handle it. You should tell your friends and coworkers not to socialize with you when you are working. Here are several ways to improve listening skills:

- Face the customer.
- Make eye contact.
- Give the customer positive feedback.
- Do not interrupt the customer.
- Do ask questions and paraphrase.
- Do not allow friends or coworkers to distract you.
- Work with one customer at a time.
- Do not perform other tasks while listening.



Reality Check

Give an example from your experience with a salesperson who talked too much, did another task while serving you, or started helping another customer before finishing with you. Describe how you felt.

CHAPTER 43 REVIEW

Remember This

- The three steps in the approach phase are (1) preapproach, (2) approach, and (3) determine needs.
- Three retail approaches are (1) service approach, (2) greeting approach, and (3) merchandise approach.
- Three ways to determine needs are by (1) observation, (2) questioning, and (3) listening.
- Four types of questions are yes/no, choice, clarifying, and open-ended.
- Paraphrasing helps you make sure that you understand what the customer wants.

Review Concepts

1. The first stage in the sales process is the approach. Describe the goal of each of the three steps in this stage.
2. Describe the difference between the preapproach step for an outside B2B sales representative and a sales associate in a retail store.
3. What happens during the approach step of the approach stage?
4. Where does the approach step occur?
5. List five goals for the approach step.
6. Describe each of the three retail approaches.
7. What is a combination approach?
8. What can a salesperson do to determine the needs of a potential customer?

9. Give an example of a choice question.
10. Which types of questions are likely to result in the customer giving you the most information?
11. Why is paraphrasing useful when trying to determine the needs and wants of a customer?
12. Why is listening important?
13. List five barriers to good listening.
14. List eight ways to improve your listening skills.

Think Critically

1. Imagine that you are a salesperson for a new company that sells computers to other businesses. How would you go about finding potential customers?
2. A salesperson only has a short time in which to impress a potential customer. Which characteristics of a salesperson impress you positively? Which characteristics impress you negatively?
3. Which retail sales approach do you think is the most effective? Explain your answer.
4. List at least three questions or actions that might upset a customer.
5. What is the difference between a yes/no question and an open-ended question?
6. A customer enters your sales area and says, "I am looking for an alarm clock. I have such a hard time waking up in the morning." How would you paraphrase the statement to the customer?

CHAPTER 43 REVIEW

7. Imagine that you are a shoe salesperson. A customer enters your selling area. How would you use observation, questioning, and listening to determine the customer's needs?
8. Imagine that you are a sales manager. One of your sales associates is not having much success in selling. What advice would you give him or her?

Connect to Business

1. Talk with the manager at your workstation if you work in a retail store or the owner or manager of a local retail business or store department. Find out what kind of training new sales associates get. What kind of ongoing training do they get? If you are selling, what kind of training or advice did you get on how to approach customers?
2. Visit a store that is staffed with sales associates to help customers. Choose an item that you will investigate. Evaluate the salesperson who helps you. How were you approached? What did the salesperson do to determine your needs? How were the salesperson's listening skills?

Explore Careers

1. Many B2B sales careers are in the category of sales representatives, wholesale and manufacturing. Read the article on these careers in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Describe the job of a sales representative.

What do they have to do to compete with other sales representatives who sell similar products? What do they do to find new customers ("new accounts")? Visit the Web site of the Manufacturers' Agents National Association (www.manaonline.org). What is the mission of this organization? How could it help you in a career as a sales representative? Look in the want ads in your local newspaper or visit a job search Web site such as www.monster.com or www.ajb.dni.us (America's Job Bank). Look for jobs as a sales representative. Choose one that interests you. What are the qualifications? What would you be doing? Would you like this job? Explain why or why not.

2. Many products for the business market are very technical and complex. The sales representatives who sell such products are often engineers. Read the article "Sales Engineers" in the *Occupational Outlook Handbook*. Why does this type of salesperson need an engineering degree? How is this job different from and similar to the job of other sales representatives? Why are sales engineers sometimes teamed with other salespeople?

Connect to the Internet

1. How does the selling process work on the Internet? Visit a consumer Web site, such as www.Amazon.com or American Express (www.americanexpress.com). Name the e-tailer, the products sold, and the target market. Print the home page. What does the Web site do that parallels what a salesperson would do during the



approach phase? What does the Web site do to try to keep you at the Web site? How does the Web site try to get you involved and interested?

2. For a while, filmlets were very popular on the Web. Find out if these short videos

with a sales message are still being used. Try to find an example to view. American Express had a series, "Seinfeld and Superman." How do these filmlets get you involved? In what way are these examples of permission advertising?

The Sales Process: Presentation

Marketing Terms

trading up
suggestion selling
feature-benefit selling
selling points
empathize

**After studying this chapter,
you will be able to**

- locate product information.
- list the steps in the presentation stage.
- describe how to choose a product to show a customer.
- explain the difference between a feature and a benefit.
- explain why it is good to involve the customer in a demonstration.
- list three ways that customers respond to the sales process.
- demonstrate how to handle customers' objections.

The presentation stage is the heart of the sales process. It is your chance to tell the customer about your product, to show how that product meets the customer's needs, and to answer any questions or objections. It is the salesperson's main opportunity to influence the customer to buy the product. The product presentation stage has three steps: (1) select product, (2) present product, and (3) handle objections, 44-1. However, before you can perform any of the steps in this stage, you must have thorough knowledge of your product.

Product Knowledge

Imagine that you are standing in front of your customer. You have assessed the customer's needs and wants. You start presenting the product, but the customer interrupts to ask a question. You cannot answer it. The customer asks several more questions that you cannot answer, 44-2. What happens next? The customer walks out of the store in disgust.

Presentation	1. Select Product
	2. Present Product
	3. Handle Objections

44-1

The presentation stage consists of all the steps involved with telling the customer about your product and handling questions and objections.

How do you learn about a product? There are three ways: formal training, informal training, and on your own.



Reality Check

Where do you get information about products that you want to buy?

Formal Training

Formal training can be provided by the company in a class or workshop format. B2B sales representatives often sell complex equipment or services. The companies they work for often provide a week to several months of training. Many businesses also have annual sales meetings at which time new products are presented and sales representatives receive additional training.

Informal Training

Informal training is brief training that usually takes place in the selling area. The supervisor will show a new retail sales associate around the selling area and describe the merchandise, 44-3. The new sales associate may also be assigned to an experienced associate, who will share

**44-2**

Imagine that the customer is asking you questions about the product, but you cannot answer them. What impression does that make on the customer?

knowledge about products and selling. A representative from the manufacturer may stop by and provide a quick overview of new merchandise to all sales staff.

On Your Own

Some sales environments provide no training. In this situation you must learn about the products on your own. In addition, even if training is provided, the top salespeople continue learning about products



Photo by Dominic Ierardi, Greater Lowell Technical High School

44-3

In retail sales, much informal training takes place on the sales floor.

on their own. The more a salesperson knows about the product, the more likely he or she is to be successful in getting sales. There are four main sources of information:

- **The Product Itself.** The product itself can be the best source of information. Check with your supervisor to find a product that you can try out. Some companies will give salespeople a sample of their products, at no or reduced cost. Experiment with the product to learn how it works. Also investigate competing products.
- **Printed Sources.** Most products are sold with printed information, such as care tags, content labels, and users' manuals. Other print sources include publications from manufacturers, consumer publications, and trade publications. Manufacturers often provide videos, booklets, and samples of their products. Consumer publications, such as *Consumer Reports*, test and compare products. Other consumer

publications, such as *Newsweek* or *Time*, contain ads, editorials, and articles about consumer products. Trade journals, that is, publications for and about a specific industry, often provide information about new products, services, and technology. For example, *The Progressive Grocer* provides information to those who sell grocery items to consumers.

- **The Internet.** Information on products is often available on the Internet. A search using keywords and a search engine can often provide valuable information. Many manufacturers and retailers provide product information on their Web sites. In addition, many consumer and trade publications also maintain Web sites. These Web sites often provide up-to-date industry information in general and product information in particular. For example, *PC Magazine*, in print and on the Web at www.pcmag.com, both provide information on new products.
- **People.** People who have experience with your products are a great source of information. Ask coworkers and supervisors about the products and customer response to them. Talk with representatives from the businesses whose products you sell. Customers who use your product are an excellent source of information. Ask them about their experiences with your product and how it compares with the competition.

Select Product

Once you have a good understanding of your products, you are ready for the second stage of the sales process: presentation. The first step is product selection, that is, deciding which products to show the customer.

Some customers know exactly what they want. Some customers think they know what they want, but the product they request does

not meet their real needs. Many customers are unsure. One of the keys to good selling is to select the appropriate products to show the customer, 44-4. Knowing what to show requires listening carefully to the customer and knowing your products.

As you gain experience with both your customers and your products, you will find it easier to select products to show. The following are some guidelines for selecting products to show:

- If the customer requests a specific product, show that product first.
- If no specific request is made, show the product that seems most likely to fit the customer's needs.
- If it is not apparent which product will fit the customer's needs, show the most popular product or a product recently advertised.

- If the product is available in a variety of price ranges, show a product in the middle price range.
- Show only two or three items at a time.
- Remove products that the customer has rejected as quickly as possible.

Selection of products to show often continues through the remaining steps of the presentation stage and through the close stage. Two additional techniques can be used at any appropriate time: trading up and suggestion selling.

Trading Up

Trading up is the technique of showing products of better quality or with more features than the customer requested. The goal is to get the customer to buy the more expensive item. This technique often



44-4

Selecting the right product to show leads to satisfied customers.

benefits the customer because the customer might ultimately be happier with the more expensive product. However, it must be handled tactfully because you do not want the customer to feel pressured or that you are only interested in making an expensive sale. You, as the salesperson, must be focused on meeting the customer's needs first and foremost. You must sincerely believe that the more expensive item will meet more of the customer's needs. You must also be willing to accept the customer's decision if he or she wants the less expensive product. The key to handling this technique successfully is to show the requested item first.

Many customers have incomplete information about products. They often request the cheapest one. However, a smart salesperson will question the customer to determine the customer's true needs. The product with more features or of higher quality may actually meet the customer's true needs. For example, a customer requests a basic speaker system. The salesperson demonstrates the basic system, and then demonstrates the higher quality of a surround-sound system. The customer decides that the higher quality is actually what he or she really wants.

Suggestion Selling

Suggestion selling is the technique of suggesting additional items to go with merchandise requested by a customer, 44-5. For example, if a man buys a suit, the salesperson might recommend a shirt, tie, and belt that would coordinate. Often, the suggested item is something the customer needs but would have forgotten to buy. Customers are often very appreciative when the salesperson knows enough to suggest appropriate merchandise.



44-5

Suggestion selling is the technique of suggesting additional items to go with the merchandise requested by the customer.



Reality Check

Have you (or someone you know) been in a situation where trading up or suggestion selling has been used? Describe the situation. Did you buy the suggested product?

Present the Product

In business-to-business sales, the salesperson often makes a formal presentation to a group of customers, 44-6. In consumer sales, the presentations are usually informal. Regardless of the type of presentation, there

**44-6**

Business-to-business sales often requires a formal presentation to the customer.

are three keys to successful presentations: (1) present benefits, (2) demonstrate features, and (3) involve the customer.

Present Benefits

Think about a product you purchased recently. Whether you bought a candy bar, a pair of shoes, or a racing bike, you bought the product for what it would do for you. You bought the product for its benefits:

satisfying your sweet tooth, looking sharp, or bicycling fast. *Customer benefits* are the good things that the product does for the user. Customer benefits result from product features. *Product features* are the physical attributes of the product. For example, small size is a feature of a certain cell phone. The benefit of a small phone is that it is easy and convenient to carry.

A major responsibility of a salesperson is to translate product features into customer benefits. This approach to sales is called **feature-benefit selling**. A useful tool in this sales approach is the *feature-benefit chart*. A feature-benefit chart lists a benefit for each feature of the product, 44-7. Sometimes the manufacturer creates such a chart; sometimes the salesperson does.

The key to a useful feature-benefit chart is to think about the product from the user's viewpoint. Ask yourself these questions:

- What would motivate the customer to buy this product?
- Which features of this product meet the customer's needs?
- How do the features give value to the customer?
- Which features give the customer a personal reason to buy this product?

Feature-Benefit Chart for a Bicycle

Feature	Benefit
Aluminum frame	Lightweight and easy to carry; does not rust
Suspension fork	Comfortable ride
Toe clips	Enables more efficient pedaling for more power on hills
Adjustable seat and handlebar stem	Enables adjustments for custom fit and comfort
Wheels with aluminum rims	Better braking, and therefore more safety
27 speeds	Efficient, easy pedaling over a variety of terrains; rider does not tire as quickly

44-7

A feature-benefit chart can help a salesperson emphasize the benefits of the product to the customer.

Some salespeople separate out advantages from benefits, in an approach called FAB selling, that is, feature-advantage-benefit. A feature is the physical quality of the product. The advantage is what that feature does. For example, on a bicycle, wheels with aluminum rims provide better braking. Better braking is the advantage of this feature. The benefit is what the feature and advantage do for the customer. In this case, aluminum wheels and better braking provide increased safety.

Sometimes the list of features and benefits of a product is lengthy. A salesperson should choose two or three key points and focus on those points during the sales presentation. The features and benefits that are most likely to convince a customer to buy the product are called the **selling points**. For example, the selling points for a bicycle might be lightweight, comfort, and stable handling. These selling points should be presented first and emphasized.

Feature-benefit charts are usually done for goods. However, services and ideas also have features and benefits for customers. For example, a contribution of \$500 to a charity can be considered a product. The benefits to the contributor are the tax deduction, the satisfaction of helping others, and the prestige of being listed as a contributor in the \$500 category.



Reality Check

Name a product and a service that you use. For each, list three features and the benefit that goes with each feature.

Demonstrate Features

Show the customer how the product works. Demonstrate the key features, while you explain how these features benefit the customer. For example, suppose you are

selling vacuum cleaners. A feature of the better vacuum cleaner is a more powerful motor. The benefit of a more powerful motor is better pickup. Demonstrate the power of the motor. Sprinkle birdseed on the carpet. Demonstrate the vacuum with the smaller motor. Then demonstrate the vacuum with the more powerful motor. While demonstrating the more powerful motor, explain that this vacuum will give the customer a cleaner carpet in a shorter amount of time.

Be sure to test out your demonstration before you try it with customers. A failed demonstration will disappoint customers and discourage them from buying at your store.

Involve the Customer

Demonstrations are most effective when the customer can actually try the product, 44-8. While trying out the product, customers often sell themselves on its benefits. In the vacuum cleaner example, let the customer push the vacuum cleaner. Most car dealers let the customer drive the car. Many clothing stores let customers try on the clothing. Many bakeries let customers taste samples.

Customer Responses

Customers respond to the sales process in a variety of ways. Three categories of responses are worth examining: questions, excuses, and objections. Customer questions are requests for more information. For example, does it come in another color? Questions usually can be answered with more product information. Questions also help the salesperson understand the customer's needs and concerns.

An *excuse* is a statement whose true message is that the customer does not want to deal with the salesperson. A common excuse is "I'm just looking around." Sometimes such customers will change



44-8

Many cosmetics sales associates provide a free makeover to convince the customer to buy the cosmetics.

their minds and will want some help. A good salesperson will keep an eye on this customer, and walk over when the customer begins to look around for help.

An *objection* is a concern about the product that could prevent the customer from buying. Objections usually fall into three categories:

- **Fear.** Customers often worry that the product will not meet their needs. Common areas of concern are fit, style, quality, and durability. Business customers often worry that a vendor will not be reliable in the areas of timely delivery or quality of products.
- **Price.** Customers often worry about whether they are getting a good deal. Customers fear paying too much. Customers also often have conflicts between wants and needs; and they worry about spending money on something that they really do not need.

Sometimes a customer simply cannot afford the product.

- **Timing.** Sometimes customers simply are not ready to buy. This is a common situation for major purchases. Customers often need time to collect information, evaluate options, and make arrangements for payment. Business customers often need to obtain approval before a purchase can be made.



Reality Check

Look at Figure 44-7. Imagine that you were considering buying that product. List three objections that you might have. Then answer each objection with one of the features or benefits of the product.

Handle Objections

Objections give you insight into a customer's concerns, 44-9. They also give you an opportunity to provide information specific to that customer's needs. Although your response to each customer will be unique, these steps should be followed:

1. **Listen.** Listen with your ears and eyes. Notice body language. Maintain eye contact. Allow the customer enough time to express the objection.
2. **Pause.** A pause shows respect for the customer and the objection. It gives you time to consider the objection and compose a response that meets this particular customer's needs. Even if you have heard the objection before and have a ready answer, do not rush to respond.
3. **Empathize.** The best way to show understanding of an objection is to empathize. To **empathize** means to show that you understand another person's feelings. The following statements work



44-9

This customer is worried about buying in-line skates. His concerns provide an opportunity to the sales associate to provide more information and reduce his worries.

well: "I know how you feel." "I'm glad you asked that question." "I understand your concern." "You've made a good point." Making these statements using a sincere tone of voice will encourage trust in the salesperson and help the customer communicate more freely.

4. **Paraphrase.** Restate the customer's objection. In this way, you will be sure that you have understood the customer's meaning. Restating the objection also shows that you appreciate the customer's point of view.
5. **Answer.** Choose specific product features or benefits that answer the objection. Answer the objection in a

straightforward and sincere manner. Then check with the customer for understanding. Look at the customer's facial expression and ask, "Have I answered your question?" After answering the objection to the customer's satisfaction, continue the presentation or move to the close. For example, a customer objects, "Won't this red T-shirt fade after a couple of washings?" The salesperson pauses for a moment, and then empathizes, "I can understand your concern." The salesperson then paraphrases, "You're worried that the T-shirt might fade." The salesperson then answers, "You don't have to worry. If you wash the T-shirt in cold water, it will stay bright red."

Salespeople have developed several specific strategies for handling customer objections, 44-10. When using any of these strategies, be sure to use a friendly tone of voice and always be polite and courteous.

An additional way to calm customer's fears is to go over the warranty. Explain the circumstances under which the customer can return the product for full refund. (For more information on warranties, see Chapter 21.)

Plan and Practice

One way to ensure successful sales presentations is to plan and practice. Plan what you will cover in your sales presentation. Although you should know everything about your product, you do not want to tell the customer everything at once. Choose the most important features and benefits to present. Think of ways to keep the customer's attention. Practice your sales presentation in front of colleagues and friends. Role-play handling objections.

Keep in mind what you learned about communication in Part 7. Pay attention to your word choice, tone of voice, and nonverbal communication.

Handling Objections

Strategy	Description	Example
Boomerang	Turn an objection into an advantage.	Customer: "I don't like this white stripe down the arms and across the back of this jacket." Salesperson: "That stripe is made of material that reflects light when car headlights shine on it. The stripe protects you when you jog at night by making you more visible."
Demonstration	Demonstrate a feature that answers the objection.	Customer: "I would like a DVD player, but I want to still be able to play my videotapes." Salesperson: "Here is a DVD player that also plays videotapes. Let me show you how it works."
Direct denial	Provide proof that a customer's statement is incorrect.	Customer: "My friend says these jeans will shrink." Salesperson: (pause) "I understand your concern. You're worried that the jeans will shrink. These jeans won't shrink because they are made of a blend of polyester and cotton. The polyester prevents them from shrinking. If you wash them in cold water and dry them on cool, they won't shrink."
Question	Ask questions to learn more about the objection, and then offer a solution.	Customer: "These shoes don't fit." Salesperson: "Where do they hurt?" Customer: "They are just a little tight across the toes." Salesperson: "We can stretch out that part of the shoe to make it more comfortable."
Third party	Refer to another customer who overcame the objection.	Customer: "This system is too complicated. I don't think I'll be able to set it up." Salesperson: (pause) "This system does look complicated. Many of our customers have the same concern. However, I just got this letter from Angela Chavez who bought the same system last week. She says that the instruction booklet is very clear, and she had no trouble setting the system up." (Let customer read letter.)
Yes, but	Acknowledge that the objection is valid. Then present a feature or benefit that offsets the objection.	Customer: "The shampoo you are recommending is twice as expensive as the brand I currently use." Hair Stylist: "Yes, but you will only need to use half as much. Also, you will like the way your hair looks and feels after using this product. In my opinion, it is the best on the market."

44-10

Salespeople have developed some specific ways to answer customer objections.

CHAPTER 44 REVIEW

Remember This

- The presentation phase has three steps: (1) select, (2) present, and (3) handle customers' questions and objections.
- Product information can be obtained through training, the product itself, printed sources, the Internet, and people familiar with the product.
- One of the keys to good selling is to select the appropriate products to show.
- Product features are the physical attributes of a product. Customer benefits are the good things that the product does for the customer.
- When customers try out a product, they often sell themselves on it.
- Customers often respond to the sales process by questions, excuses, and objections.
- When responding to customers' objections, follow these five steps: (1) listen, (2) pause, (3) empathize, (4) paraphrase, and then (5) answer.

Review Concepts

1. Name the stage during which a salesperson tells the customer about a product.
2. List the three steps in the presentation stage.
3. What does a salesperson need before the presentation stage starts?
4. Describe three ways to learn about a product.
5. Why is it a good idea for a retail salesperson to try out products before selling them?
6. List six guidelines for selecting a product to show.
7. Why do salespeople use trading up and suggestion selling?
8. Why should a salesperson translate product features into benefits?
9. What should a salesperson do if a product has a very long list of features and benefits?
10. Why is it a good idea to involve the customer in a product demonstration?
11. What is the difference between an excuse and an objection?
12. Explain each of the five steps in handling customer objections.

Think Critically

1. There are many ways to obtain product knowledge. Which one do you think would be the easiest way to learn about the product and which would be the most difficult? Explain your answer.
2. Suppose a customer is looking for a product available in a variety of price ranges. Why would you show the middle price range first?
3. How can the sales technique of trading up actually benefit the customer?
4. Imagine that you are a salesperson. Name a product, other than a suit, that you would like to sell. Then list at least three other products you could suggest that the customer buy along with that product.

5. Name another product that you would like to sell. Make a feature-benefit chart for that product. Then, make a list of objections a customer might have about that product. How would you answer those objections?
6. Why is it important to practice a sales presentation? How would you practice?

Connect to Business

1. Talk with the manager at your workstation if you work in a retail store or the owner or manager of a local retail business or store department. Find out how the sales staff presents the product. What kind of training does the company offer on how to present products?
2. Visit a retail store that features many competitive brands and prices for each product. One example would be a store that sells TV sets. Compare all the different types and brands of that one product. What does the salesperson need to know in order to successfully sell that product? What are the differences among the types and brands of that one product? What are the features, benefits, and target market for each? Design a form that would organize this information and help the salesperson decide which product to show to a customer.

Explore Careers

1. Product demonstrators and product promoters create interest in products by demonstrating them and answering

questions. Read the article about demonstrators and product promoters in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Where do people in these careers usually work? What do they do? What are the requirements? Why do you think so many of the jobs are part time? How are these jobs similar to acting? Visit a job Web site such as www.monster.com or www.ajb.dni.us (America's Job Bank). Look for jobs as a demonstrator or product promoter. Choose one that interests you. What are the qualifications? What would you be doing? Would you like this job? Explain why or why not.

2. Counter and rental clerks need to know a great deal about the products and services they rent. Read the article "Counter and Rental Clerks" in the *Occupational Outlook Handbook*. Visit the Web site of the American Rental Association (www.ararental.org). Click on the link "About the ARA," and then "Equipment Rental Industry Profile." What kinds of products do people in these careers rent? Why do they need detailed product knowledge?
3. People who sell insurance also need product knowledge. Read the article "Insurance Sales Agents" in the *Occupational Outlook Handbook*. Describe the types of insurance. For more information about health insurance careers, visit the Web site of the National Association of Health Underwriters (www.nahu.org). For more information about independent insurance agencies, visit the Web site of the Independent

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Insurance Agents of America (www.iaa.org). For information about education and training in jobs in insurance, visit the Web site of Insurance Vocational Education Student Training (www.investprogram.org). Search a job search Web site for insurance sales agents. Browse the job openings, and then choose one that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Locate a trade publication Web site. What information were you able to obtain? Is product knowledge available from the site? List the site and the information you obtained and present your research to the class.
2. Visit the Web site of an e-tailer. How does that Web site accomplish the presentation stage of selling? Does the Web site use the techniques of trading up or suggestion selling? Print the page that shows examples.

The Sales Process: The Close

Marketing Terms

close
 buying signals
 mental ownership
 trial close
 overselling
 transaction
 debit card
 electronic funds transfer
 money order
 credit
 bank credit card
 charge card
 credit contract
 relationship marketing

After studying this chapter,
 you will be able to

- list the three steps in the close stage.
- describe how to tell when a customer is ready to close.
- demonstrate at least two ways to close a sale.
- list four forms of cash.
- list four forms of credit payments.
- explain the value of the follow-up step.
- explain why ethics is important in sales.

The close is the last stage of the selling process. It has three steps: (1) close the sale, (2) complete the transaction, and (3) follow up, 45-1. The first step is the most complex and tricky. However, the second and third are essential for a successful sale. Throughout this stage, keep in mind that your goal is customer satisfaction.

Close the Sale

The goal of all your sales activities is to bring the sale to a close. The **close** is the moment when a customer agrees to buy

Close	1. Close the Sale
	2. Complete Transaction
	3. Follow Up

45-1

The close stage includes all the steps involved with making the sale. It also includes following up and building long-term relationship with the customer.

a product, 45-2. It can occur at any point during the sales process. Some customers make decisions quickly and will decide to make a purchase soon after your approach. Other customers require more time to make a decision. There are three aspects to the close: (1) timing, (2) buying signals, and (3) trial close.

Timing

The close occurs when the customer is ready to buy. Some customers clearly let you know when they are ready. They might say, "I'll take it!" Other customers may be ready to buy, but they do not initiate the close. Your job is to determine when the customer is ready to buy and then initiate the close. If you close too soon, you might upset the customer and cause him or her to leave. If you delay the close, the customer might become bored and leave. How do you know when the customer is ready to buy? You carefully watch and listen for buying signals.

Buying Signals

Buying signals are verbal or nonverbal signs that a customer is ready to buy, 45-3. Buying signals include comments, facial expressions, and actions, 45-4. Buying signals

**45-2**

The close is the moment when the customer agrees to buy the product.

often indicate mental ownership. **Mental ownership** has occurred when the customer acts and speaks as if the product is already his or hers. For example, the customer might say, "I have the perfect place for that in my living room." Evidence of mental ownership is an indication of readiness to buy.

Trial Close

What do you do when you notice buying signals? You try to close the sale. A **trial close** is an attempt to close a sale. Often the trial close is successful, and the customer agrees to buy. Figure 45-5 shows six methods to help the customer agree to buy.

**45-3**

This family is showing signals that they have found the vehicle they all want.

Buying Signals

Type	Examples
Comments	Can I pay by credit card? Is there an extra charge for delivery/installation/alterations? Whom can I call if I have problems? That's a great price! My cousin would really enjoy that toy.
Facial expressions	Eyes brighten Broad smile
Actions	Holds on to an item while others are being shown Keeps returning to a particular product Rereads the product information Tries out the product Nods head in approval while salesperson comments on the product Agrees with all points mentioned by salesperson

45-4

Buying signals consist of comments, facial expressions, and actions. These buying signals often indicate mental ownership.

Methods for Closing a Sale

Method	Situation	Action by Salesperson	Examples
Direct close	Customer is showing many positive buying signals.	Ask a direct question or make a comment that gets the customer to commit to buying.	Salesperson: "How many would you like?" "How would you like to pay for that?" "You seem very pleased with the product. Shall I write up your order now?"
Choice close	Customer and salesperson have narrowed down the selection to two products.	Reduce the number of products in front of the customer to two. Restate the major features and benefits of each product. Then ask the customer, "Which one would you like?"	Salesperson: "The black dress is elegant and sophisticated. The teal dress is delicate and feminine. Which one would you like?"
Summarize then close	All product options have been presented.	1. Summarize main features and benefits. 2. Review objections and how they were resolved. 3. Go over selling points that customer agrees with and get the customer to express his or her agreement.	Salesperson: "The black dress can be dressed up or down and thus used on a variety of occasions. The teal dress is prettier and more unusual; however, it can only be worn on dressy occasions. Which one would you like?"
Close on an objection	Customer is giving positive buying signals, except for one objection.	Resolve the objection and then use a direct close.	Customer: "This dress is exactly what I've been looking for, but it's too long!" Salesperson: "We can hem it for you at no cost, and have it delivered to your home in three days. I'll call Alterations to measure the dress right now. How would you like to pay for it?"
Standing room only close (SRO close)	Product is in limited supply; product is selling extremely quickly; or price will go up soon.	Explain why the customer should buy now.	Salesperson: "This is the last one. I don't know when we will get more." "The sale is over tomorrow."
Service close	Customer is giving positive buying signals, but still has some hesitancy.	Offer an extra service, bonus, or gift that will convince the customer that he or she is getting extra value.	Salesperson: "If you purchase this now, I'll throw in an extended warranty." "If you buy it today, I'll give you free delivery." "If you buy it now, you will get a free recipe book with your grill."



Reality Check

Think of a situation in which you (or someone you know) bought a product. Describe the behavior of the salesperson to close the sale.

The Unsuccessful Trial Close

Sometimes the trial close is unsuccessful. However, an unsuccessful close is not a failure. It is an opportunity to learn more about the customer's objections and to answer those objections with more reasons to buy.

Many selling processes involve two or more trial closes. If the process does not result in a sale today, it might result in a sale tomorrow or next week. If the customer concludes the sales process without buying, maintain a positive attitude. Tell customers that you enjoyed helping them. Thank them for their time and attention. Invite them to return. Give them your business card so that they can ask for you on future visits. Make the customers feel comfortable so that if they change their minds and decide to buy, they will want to come to you.



Reality Check

Have you experienced a trial close? Describe the situation. Was the trial close successful? Why or why not?

Avoiding Blunders

Blunders can occur at any time during the sales process. However, blunders often occur during the close. Keep in mind that although one of your goals is to sell the product, an equally important goal is to create a long-term relationship with the customer.

Rudeness and abruptness can turn off a customer. Develop a pleasant tone of voice.

Avoid negative words and phrasing. For example, "You wouldn't want to try it, would you?" A more positive phrasing is, "Would you like to try it?" Avoid criticism, sarcasm, irritability, and negative comments about the customer or competitors. Scare tactics or pressuring can ruin your relationship with a customer. Do not rush the customer. A hasty decision may result in merchandise returns or an unhappy customer.

Overselling is unethical. **Overselling** is promising more than the product or the business can deliver. If you oversell the product, the customer may buy today. However, when the customer gets home, he or she will realize that the product will not perform as promised, 45-6. The result might



45-6

Overselling a product, that is, promising more than the product can deliver, can create problems. If this drill does not work as promised, the customer will be unhappy and might return the product.

be a returned product, a customer who will never buy from you again, or a lawsuit. Helping a customer make a wise buying decision sometimes means that you will lose a sale. However, your honesty builds trust and may result in the customer's returning to you for a future purchase.



Reality Check

Describe a situation in which a salesperson made a blunder. State the type of blunder that occurred.

Complete the Transaction

A **transaction** is the exchange of payment and product. In retail sales, the transaction is the actual exchange of product and payment. In telemarketing or business sales, the transaction is the taking of the order and arranging for payment. Courtesy and efficiency are important in this step. Paperwork must be handled quickly and accurately. An error made in a catalog number or price will create problems for the customer. There are two types of transactions: cash transactions and credit transactions. A third way that customers pay is through financing.

Cash Transactions

In everyday language, the term *cash* usually refers to currency. As you learned in Chapter 12, currency is the money in use in a country. Most countries have currency in the form of paper bills and coins, 45-7. However, several other forms of payment are considered cash: checks, debit cards, and money orders.

A *check* is a legal document that instructs a financial institution to pay a specific



45-7

This customer is paying for his purchase with cash in the form of currency. Checks, debit cards, and money orders are also considered to be forms of cash.

amount of money to the person or business named on the check. The person writing the check must have enough money in his or her account to cover the check. If there is not enough money in the account, the check will bounce; that is, the check will be returned to the bank and the retailer will not get paid.

Most banks include a debit card with their checking accounts. A debit card looks like a credit card; however, the **debit card** deducts the amount of purchase immediately from your checking account. A debit card functions like a cash payment. Banks can offer debit cards because of a system called

electronic funds transfer. **Electronic funds transfer** is a national computer system that links banks and businesses; it works by transferring funds electronically from one account to another.

People who do not have checking accounts can purchase a money order from a post office, bank, or currency exchange. A **money order** functions in the same way a check does; it is a legal document that pays a specific amount of money to a specific person or business. A person purchases a money order by paying the amount on the money order plus a fee. The money order looks like a check, with the name of the payee and the amount printed on it. The payee can cash a money order similar to the way a payee can cash a check.

Advantages and Disadvantages of Cash

Cash transactions are good for the seller because the seller obtains payment for the product immediately. The seller can then use the cash to pay the store's costs, such as rent, merchandise, and salaries. However, there can be problems with cash payments. Currency can be counterfeit. Customers can try to use stolen checks and debit cards. A person using a check may not have enough money in his or her checking account to cover the amount on the check.

Credit Transactions

Credit is a payment arrangement that enables a customer to take possession of a product now, but pay for it later. The main forms of credit are credit cards, loans, installment payments, and deferred payments. Credit can be obtained from two sources: financial institutions and sellers. Financial institutions provide bank credit cards. Sellers provide charge cards, deferred payments, and installment plans.

Financial Institutions

One of the types of credit that financial institutions offer is a bank credit card. A **bank credit card** is credit extended by a bank, credit union, or finance company. Using a bank credit card enables the customer to take the product home today but pay for it later.

Bank credit cards can be used at any business that agrees to accept the card, 45-8. The major credit card companies are VISA,

**45-8**

Bank credit cards are different from store charge cards. A bank credit card can be used at any business that agrees to accept the card. A store charge card can only be used at the store that issued it.

MasterCard, and Discover. In order for a business to accept credit cards, the business has to make arrangements with the credit card company. In addition, the business usually has to pay fees to the credit card company.

Sellers

Sellers provide credit because credit encourages customers to spend more money. The three common forms of credit extended by sellers are charge cards, deferred payments, and installment plans.

A **charge card** looks like a credit card, but can be used only at the store that issued it. Charge cards are also called *retail credit cards* or *in-store credit cards*. For example, J.C. Penney's has a charge card. It can only be used at J.C. Penney's stores. Charge cards enable the store to develop a database of customers who regularly shop their store. This database can be used to build customer loyalty through catalogs and special promotions.

A *deferred payment*, also called *deferred billing*, is a payment that is made at a specific time in the future. Deferred payment enables the customer to take the product home, but pay for it later, usually with no finance charge. Ads for deferred payment make statements such as "60 days same as cash." The ad means that if you pay for the product within 60 days of purchase, there will be no finance charges. Another form of deferred payment is called COD. COD stands for cash on delivery. It means that the customer can pay for the product when it is delivered.

An *installment plan* enables the customer to pay for a product in small payments made at regular intervals. There might be a small fee for setting up the installment plan, but there is often no finance charge. An installment plan allows the customer to take the product home, and pay for it in small regular amounts. *Layaway* is a type of installment plan. In layaway, the store sets

aside the merchandise for the customer, while the customer pays for the merchandise over a set period of time. When the product is paid for, the customer takes the merchandise home.



Reality Check

If you owned a small store, would you extend credit? Explain your answer.

Consumer Credit Protection

When a consumer applies for a credit or charge card, he or she must fill out an application. The consumer's signature on the application means that the consumer has signed a contract and is responsible for the terms of this contract. The **credit contract**, often called a *credit agreement*, spells out the rights and responsibilities of the credit grantor and the credit user. The major responsibility of the credit user is to pay bills on time or to pay the minimum plus a finance charge.

Over the years, some credit grantors have taken advantage of credit users. As a result, a number of federal laws have been passed to clarify the responsibilities of the credit grantors and to protect the rights of credit users, 45-9.

Advantages and Disadvantages of Credit

The main advantage of credit is that it encourages consumers to spend more money. If a customer knows that he or she can charge a purchase and pay later, that customer is more likely to buy a product or more products. The main disadvantage of credit is customers who do not pay or declare bankruptcy.

Laws Concerning Consumer Credit Protection

Date	Name	Purpose
1969	Truth in Lending Law	Requires credit grantors to tell consumers how much the credit will cost. The cost of the credit must include the dollar amount and the annual percentage rate (APR).
1971, 1977	Fair Credit Reporting Act	Provides consumers with procedures for correcting mistakes in their credit records. If a consumer is denied credit, the grantor must provide the name and address of the credit bureau that was used; and the consumer may request a free copy of the report.
1975	Equal Credit Opportunity Act	Grantors may not discriminate on the basis of sex, marital status, race, national origins, religion, age, or the receipt of public assistance. If a consumer is denied credit, the grantor must provide a written explanation of why credit was denied.
1975	Fair Credit Billing Act	Provides consumers with procedures for correcting billing errors. It also protects the consumer's credit rating while the billing dispute is being settled.
1978	Fair Debt Collection Practices Act	Protects consumers from unfair and harassing methods of collecting debts.
1988	Fair Credit and Charge Card Disclosure Act	Requires any business that grants credit or charge cards to provide information on the cost of the credit.

45-9

Federal laws have been developed to protect credit users.

Consumer Financing

The third way a customer can pay for a purchase is through a loan. A *loan* is money that is lent for a fee. The fee is usually called *interest*. A customer obtains a loan from a financial institution, such as a bank, credit union, or finance company. Some businesses, such as car dealers, also provide loans. The process of arranging for a loan is called *financing*.

Loss Prevention

The major losses to businesses during the transaction step occur when people try to use illegal forms of payment. One of the major responsibilities of cashiers and sales

associates is to prevent such losses. The following are the three most common forms of illegal payment: (1) counterfeit money, (2) stolen checks, and (3) stolen credit cards.

Counterfeit Money

Counterfeiting money is one of the oldest crimes in the United States. On October 9, 2003, the U.S. government introduced the most secure currency in U.S. history. The new \$20 bill has a large number of security features to make it difficult to copy. Counterfeit \$20 bills are now easier to distinguish from the new bills, 45-10. A new \$50 bill was introduced on September 28, 2004. New designs for the \$5 and \$10 were under discussion at that time.

The new \$20 design retains three important security features that were first introduced in the 1990s and are easy for consumers and merchants alike to check: watermark, color-shifting ink and security thread.



Security Thread

Hold the bill up to the light and look for the security thread, or plastic strip, that is embedded in the paper and runs vertically up one side of the note. If you look closely, the words "USA TWENTY" and a small flag are visible along the thread from both sides of the note.

Color-Shifting Ink

Look at the number "20" in the lower right corner on the face of the bill. When you tilt the note up and down, the color-shifting ink changes color from copper to green.

Watermark

Hold the bill up to the light and look for the watermark, or faint image, similar to the large portrait. The watermark is part of the paper itself and can be seen from both sides of the note.

The New Color of Money: Safer. Smarter. More Secure.

Newly designed currency — with the addition of subtle background colors — will be issued beginning with the \$20 note in late 2003. New designs for the \$50 and \$100 notes will follow in 2004 and 2005. The introduction of new currency designs is part of an ongoing effort by the United States government to stay ahead of currency counterfeiting and to protect the economy and your hard-earned money.

For more information about new currency designs visit www.moneyfactory.com/newmoney

The federal government has developed new currency that is harder to copy and easier to distinguish from counterfeit currency.

The U.S. government plans to introduce new currency designs every 7 to 10 years. Details on the new currency are available at www.moneyfactory.com/newmoney. The government has developed a large number of training materials for the new money. Most businesses provide training on how to recognize counterfeit bills to their employees who handle cash.

Stolen Checks

Businesses vary on their policy for accepting checks. Some businesses do not accept checks. Others will accept them only for the exact amount of purchase. Most businesses train new employees on their check policy. When businesses do accept checks, they usually have their employees do the following:

- request photo identification, usually a driver's license
- request a second form of identification, usually a credit card or a bank check guarantee card
- examine the check carefully to make sure it is filled out properly
- get approval from a manager for an out-of-state check

Stolen Credit Cards

Most businesses accept credit cards and use an electronic sales register to process them. The employee slides the credit card through a slot on the register. The register reads the magnetic strip on the credit card. The register then connects electronically to the credit card center and transmits the information from the customer's magnetic strip. The credit card center then sends a message back saying whether the credit was approved or disapproved.

The above process protects the business from customers who have exceeded their credit limits or know that their cards have been stolen and alerted the credit card

company. In order to protect the business from cards that have recently been stolen, businesses usually ask their employees to do the following for all customers using credit cards:

- request photo identification, usually a driver's license
- compare the customer's signature with the signature on the back of the credit card, 45-11.

General Precautions

Most businesses provide their payment-handlers with training on how to recognize illegal payments and how to handle the customers. Here are some general guidelines:

- Be alert for extremely nervous customers or customers who are in a big hurry.
- Be suspicious if a large denomination bill is being used to pay for a small purchase.
- Keep an eye on customers who are acting strangely.
- Never accuse a customer of being a thief or using illegal forms of payment. Follow strictly your company's procedures for these circumstances.



45-11

The cashier should always check the signature on the receipt with the signature on the back of the credit card.

During the Transaction

Words of encouragement and reassurance are often appropriate during the transaction. Assure the customer that he or she has made a wise decision. Repeat some of the features or benefits that the customer will enjoy. This is also a good time to mention any special care instructions or other advice that will help the customer benefit from the purchase.

Thank your customers for their purchases. Ask if you can help them with anything else. Give them your business card and invite them to return. If appropriate, mention an upcoming sale or new shipment arrival. In business sales, ask for permission to call again or arrange for the next call.



Reality Check

Describe a situation in which the transaction step did not go smoothly. What were the problems and how were they solved?

Follow Up

After the transaction is completed, you should follow up with the customer. The purpose of following up after a sale is to ensure customer satisfaction. Customers have a large number of choices of products and places to buy them. Research has shown that it is much more expensive to find new customers than to keep current ones. One of the ways to keep customers is to follow up with them after a sale and make sure they are satisfied.

Following up after the sale is part of a marketing approach called *relationship marketing*. **Relationship marketing** is an approach to marketing that focuses on building long-term relationships with customers. Relationship marketing sees the

relationship with customers as starting at the approach, continuing indefinitely, and including many purchases.

The follow-up is the step during which the salesperson makes sure that everything goes smoothly during delivery, installation, and initial use. Follow-up commonly occurs in three areas: confirmation, thank you, and customer records. Self-evaluation can also occur during the follow-up step.

Confirmation

Confirmation involves checking on the orders and promises to make sure that they have been properly carried out. For example, if a dress was to be altered and delivered, the salesperson should check with the alterations department to make sure that the dress and alteration instructions were received. Then the salesperson should call the customer to make sure that the dress was delivered when promised and that the alterations were done.

Many companies that take orders over the phone or by e-mail send confirmation messages by e-mail. The confirmation message indicates the product ordered, the charges, and the delivery information.

Confirmation includes contacting the customer after the sale to make sure that the customer is satisfied. This call gives the salesperson the opportunity to solve any problems that might have occurred and thus increases customer satisfaction with the product and the company, 45-12.

Thank-You Notes and Calls

Many salespeople send personal thank-you notes after the sale. This note gives you the opportunity not only to thank the customer, but also to invite him or her to purchase additional products. You can include your business card and an update on new products or sales.

Sometimes salespeople make a thank-you phone call and use it as an opportunity

**45-12**

Many salespeople call the customer a few days after the sale. The call is to confirm that the customer is satisfied, to solve any problems, and to thank the customer for the sale.

to determine customer satisfaction. If there are problems, the salesperson can then take steps to correct them.

Customer Records

One of the most valuable aids a salesperson can have is a detailed customer list. Computer databases and sales software make compiling such lists easy. The database keeps track of customer contact information and purchasing history. After an interaction with a customer, the salesperson can update the customer's record with personal information including items such as size, color preferences, birthday, and people for whom the customer buys gifts. Time management software enables you to schedule a reminder to contact the person, for example, on his or her birthday.

Self-Evaluation

Self-evaluation is technically not part of the sales process. However, it is a good way to improve sales performance and customer satisfaction, 45-13. Many companies have a formal evaluation process. They ask customers for feedback on their sales and service staff. They then share the feedback with the sales and service staff. If particular problems are discovered, the company may undertake sales training to help the staff improve their performance.

In addition to any company-sponsored evaluation, each salesperson should do a personal self-evaluation. Review your actions from the approach through the follow-up. Determine which actions gave the desired results. Determine which actions did not work. Develop new actions to try

**45-13**

Many salespeople constantly evaluate their performance in order to improve their number of sales and customer satisfaction.



Reality Check

Describe any follow-up sales activities that you have experienced as a customer.

next time. You might also ask for feedback from colleagues. For example, a colleague might point out that you often have a worried expression on your face. This person might be able to work with you to develop a more relaxed and friendly expression. The following questions can help with self-evaluation:

- Which actions elicited smiles or other positive responses in the customer?
- Which questions elicited useful information?
- Which actions or questions elicited negative responses?
- Did you have enough information about the products to answer questions and objections?
- How did you get the customer involved in the product demonstration?
- What did you notice about the customer that helped you close the sale?

You might want to keep a personal sales diary. Your sales diary is different from the customer records you develop in the store computer database. In your diary, make a record of each sales encounter. Focus on your behavior and the customer's responses. Make notes about each customer, what he or she wanted, and your actions. Note what worked and what did not work. Review your diary from time to time. Use the information to develop new sales approaches and behaviors.

Ethics in Sales

Throughout the chapters on sales, ethical behavior has been assumed. In order to build trust with customers, a salesperson must be honest and responsible. Unfortunately, there are many opportunities in sales to be unethical. Here are some behaviors that customers consider unethical:

- overselling the product
- promising more than the product or company can deliver
- lying about the competition to make a sale
- providing false product testimonials
- selling hazardous products

Many professional associations for salespeople have developed codes of ethics to help their members be ethical. Figure 45-14 shows the code of ethics from the Sales and Marketing Executives International.



Reality Check

Have you experienced unethical behavior by a salesperson? Describe the situation and behavior.

The International Code of Ethics for Sales and Marketing

Your pledge of high standards in serving your company, its customers, and free enterprise

1. **I hereby acknowledge** my accountability to the organization for which I work and to society as a whole to improve sales knowledge and practice and to adhere to the highest professional standards in my work and personal relationships.
2. **My concept of selling** includes as its basic principle the sovereignty of all consumers in the marketplace and the necessity for mutual benefit to both buyer and seller in all transactions.
3. **I shall personally maintain** the highest standards of ethical and professional conduct in all my business relationships with customers, suppliers, colleagues, competitors, governmental agencies, and the public.
4. **I pledge to protect**, support, and promote the principles of consumer choice, competition, and innovative enterprise, consistent with relevant legislative public policy standards.
5. **I shall not knowingly participate** in actions, agreements, or marketing policies or practices which may be detrimental to customers, competitors, or established community social or economic policies or standards.
6. **I shall strive to ensure** that products and services are distributed through such channels and by such methods as will tend to optimize the distributive process by offering maximum customer value and service at minimum cost while providing fair and equitable compensation for all parties.
7. **I shall support efforts** to increase productivity or reduce costs of production or marketing through standardization or other methods, provided these methods do not stifle innovation or creativity.
8. **I believe prices** should reflect true value in use of the product or service to the customer, including the pricing of goods and services transferred among operating organizations worldwide.
9. **I acknowledge** that providing the best economic and social product value consistent with cost also includes: (a) recognizing the customer's right to expect safe products with clear instructions for their proper use and maintenance; (b) providing easily accessible channels for customer complaints; (c) investigating any customer dissatisfaction objectively and taking prompt and appropriate remedial action; (d) recognizing and supporting proven public policy objectives such as conserving energy and protecting the environment.
10. **I pledge my efforts** to assure that all marketing research, advertising, and presentations of products, services, or concepts are done clearly, truthfully, and in good taste so as not to mislead or offend customers. I further pledge to assure that all these activities are conducted in accordance with the highest standards of each profession and generally accepted principles of fair competition.
11. **I pledge to cooperate** fully in furthering the efforts of all institutions, media, professional associations, and other organizations to publicize this creed as widely as possible throughout the world.

This code of ethics for sales and marketing executives guides them to behave ethically.

CHAPTER 45 REVIEW

Remember This

- The three steps in the close stage are (1) close the sale, (2) complete the transaction, and (3) follow up.
- You can tell when a customer is ready to close by observing his or her comments, facial expressions, and actions.
- There are six methods for closing a sale: (1) direct close, (2) choice close, (3) summarize then close, (4) close on an objection, (5) standing room only close (SRO close), and (6) service close.
- Forms of cash payments include currency, checks, debit cards, and money orders.
- Forms of credit payments include credit cards, loans, installment payments, and deferred payments.
- The follow-up steps gives the salesperson the opportunity to make sure the customer is satisfied and solve any problems.
- Ethics is important in sales because success in sales is based on trust.

Review Concepts

1. What do you call the moment when the customer agrees to buy the product?
2. When does the close occur?
3. How does a customer let the salesperson know that he or she is ready to buy?
4. Describe the six methods for closing a sale.
5. Name the two basic ways customers can pay for products.
6. What is the difference between a debit card and a credit card?
7. Why has the federal government passed several laws concerning credit?
8. What is financing?
9. Name the three most common forms of illegal payment.
10. Why is the follow-up step of the sales process important?
11. How can self-evaluation help a salesperson?
12. Why is ethics in sales important?

Think Critically

1. Why is it so important to look for buying signals?
2. Give three examples of nonverbal buying signals.
3. Name a product that you would like to sell. Then name a method for closing a sale. Then describe how you would use it to close a sale on the product.
4. What is the value to a store of accepting credit?
5. How can credit help our economy?
6. Imagine that you are a salesperson. Name a product that you would like to sell. How would you follow up with a customer after a sale?
7. Can any steps be left out of the close stage of the selling process? Explain your answer.

Connect to Business

1. Talk with the manager at your workstation if you work in a retail store or the owner or manager of a local retail business or store department. Find out how transactions are conducted. Does the company accept credit? Find out why or why not.
 2. Visit a store that has sales associates to help customers. How do the sales associates close a sale? Which closing techniques did they use and how effective were they? How is the transaction step handled?
 3. Visit a retail store that has cashiers. Ask permission to watch the cashiers at work. Observe how the cashiers work. What do they do to protect the store against illegal forms of payment? What do they do to make sure they handle payments accurately?
2. Workers who check the credit worthiness of customers include credit managers and credit authorizers. Read the article "Credit Authorizers, Checkers, and Clerks" in the *Occupational Outlook Handbook*. What do credit authorizers, checkers, and clerks do? How has new credit scoring software affected the career? How does the economy affect this career? Search the Internet for available jobs as a credit manager or authorizer. Choose one that interests you. What are the qualifications? What would you be doing? Would you like this job? Explain why or why not.
 3. Many businesses and individuals need advice on investments and handling their money. Read the article "Financial Analysts and Personal Financial Advisors" in the *Occupational Outlook Handbook*. What do financial analysts do? Learn more about careers as a financial analyst at the Web site of the CFA Institute (www.cfainstitute.org). What do personal financial advisors do? Learn more about careers as a personal financial advisor at the Web site of the Financial Planning Association (www.fpanet.org).

Explore Careers

1. Many jobs in banks involve working with people and money. Read the "Tellers" and the "Loan Counselors and Officers" articles in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Which banking career interests you the most? Look for available jobs in that career in your local newspaper or Internet job search Web sites such as www.monster.com or www.ajb.dni.us (America's Job Bank). Choose one that interests you. What are the qualifications? What would you be doing? Would you like this job? Explain why or why not.

Connect to the Internet

1. Visit the Web site of an e-tailer. Go through the procedure of buying a product. Notice that at any step you can cancel the product. You do not have to buy it. How does the Web site accomplish the close step of the sales process? How does the Web site try to get you to commit to buying an item? What ways does it offer for you to pay for your item?

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2. Use a search engine and the keywords "credit bureaus" to find the companies that create credit reports. Choose one of the companies and visit its Web site. What kinds of services does it offer to consumers and businesses? What kinds of information and education does it provide about credit?
3. Visit the website www.moneyfactory.com/newmoney. Describe the changes that the federal government made to U.S. currency to make it more difficult to counterfeit.

Marketing Terms

customer services

service quality

quality service

exceptional customer service

customer service mind-set

contact point

**After studying this chapter,
you will be able to**

- give examples of customer service.
- describe the three levels of customer service quantity in retail.
- explain the difference between service quantity and service quality.
- describe the role each employee plays in providing exceptional customer service.
- list three actions a company can take to develop exceptional customer service.
- list three actions an employee can take to give exceptional customer service.

You need to buy a pair of running shoes. You could go to a discount store where the prices are low, but you would have to look through all the shoes on your own. Instead, you could go to a store that specializes in athletic shoes. The prices are higher at the specialty store, but the salesperson is trained in fitting running shoes and will help you find the right pair. The discount store is self-service. The specialty store provides full-service. You choose which store best meets your current needs, 46-1.

You walk into a fast-food restaurant. The cashier has a scowl on his face. He says, "Whaddya want?" You walk into a different fast-food restaurant. The cashier smiles at you. He says cheerfully, "Good afternoon. What can I get for you?" Which restaurant has better customer service? These examples show the two aspects of customer service: service quantity and service quality.

**46-1**

When you shop, you have a choice of full-service stores and self-service stores.

**Reality Check**

Give an example of a store you go to because of its good customer service. Give an example of a store you avoid because of its poor customer service. What makes customer service good?

Service Quantity

Customer services are actions done for customers to help them buy or use a product. Customer services also include actions that provide comfort and enjoyment during the buying experience, 46-2.

The purpose of customer services is to attract customers, keep them in the store, and influence them to buy more products. Each business has to decide which customer services to offer. Each customer service costs money to provide. The cost to provide a service must be balanced by the benefit of gaining more sales and earning more profits.

Examples of Customer Services

Help with Buying Decision	Help with Use of Product	Services for Customer Comfort and Enjoyment
Bridal registry Credit Design consultants Fashion consultants Warranties Return privileges Technical consultants Test drive Try ons Try outs	Alterations Customization Delivery Gift wrapping Installation Maintenance Technical support Training	Child care Coffee/beverage service Decor Fitting rooms Food service Hours Location Lounges Music Parking Restrooms Services for special needs Store layout Valet parking

46-2

There are many customer services that businesses can offer.

Marketers often decide on customer services when they choose the target market. For example, if your target market is budget-minded shoppers, you will provide a minimum of services to keep prices down. If your target market is wealthy shoppers willing to pay for service, you will provide a large number of services.

Many of the decisions about services are made when the marketing mix decisions are made. In other words, the customer services decisions are part of the product, price, place, and promotion decisions. For example, decisions about warranties are part

of the product decision. Decisions about credit are part of the price or promotion/sales decisions. Most of the comfort and enjoyment decisions are part of the place and promotion/visual merchandising decisions, 46-3.



Reality Check

Name a customer service that you have used. Describe the business where you used it and describe the service. How did this service affect your opinion of the business?



Photo courtesy of The Mills Corp.

46-3

This mall decided to create a comfortable place for people to wait, rest, or meet each other.

Levels of Service

In retailing, there are three levels of service: (1) self-service, (2) limited-service, and (3) full-service, 46-4. These levels are related to the quantity of services provided. Self-service provides little or no services. Limited-service provides a few services. Full-service provides many services. Self-service is usually offered in stores with a value or bargain image. Full-service is usually offered at upscale retailers. As the popularity of self-service increases, the quality of merchandise in these stores has also increased, 46-5.



Reality Check

Give an example of a local business for each of the service categories.

Service Quality

What is service quality? **Service quality** is the ability of a particular service to satisfy a customer. A smiling and helpful salesperson can influence the customer's image of the entire store.

Often, the terms are reversed: quality service. **Quality service** usually refers to service that *does* meet customers' needs and meets the standards for service set by the company. The opposite would be poor service.

The difference between poor service and quality service is the difference between a sullen salesperson and a smiling salesperson. It is the difference between being rushed to make a decision and being given enough time and information to make a comfortable and satisfying decision. It is the difference between a salesperson saying irritably,

Levels of Service in Retailing

Level of Service	Number of Services	Number of Salespeople	Prices	Quality of Merchandise	Store Image	Examples
Self	Basic	None or one, usually a cashier	Low	Low, but can be moderate or high	Budget	Vending machines, discount stores, warehouse stores, supermarkets, catalog, Internet
Limited	Basic plus some extras	Few	Moderate	Moderate	Value	Department stores, chain stores
Full	Basic plus many extras	Many	High	High	Prestige	Upscale department stores, specialty stores

You can usually tell the level of service in a retail store by observing the way the merchandise is presented and how many salespeople are available to help customers.

Self-Service and Full-Service

Self-Service



Full-Service



46-5

The same type of merchandise can be carried in self-service stores and full-service stores.

“No, we don’t do that” and a salesperson saying cheerfully, “Let me see what I can do for you.”

Exceptional customer service is service that meets and exceeds customers’ needs. The phrase “above and beyond” is often used to refer to exceptional customer service. Every business can provide exceptional customer service. Businesses that are committed to the marketing concept focus their energies on the customer, including quality customer service. Businesses that succeed in providing exceptional customer service develop a customer service mind-set in all their employees. A **customer service mind-set** is the attitude that customer satisfaction always comes first.

Not Just for Salespeople

Sales and customer service staff are not the only ones providing customer service. Everyone in an organization can have an impact on customer service. Imagine a large restaurant. Which workers do you see besides the retail staff (that is, the servers, host, and cashier)? You may see the bussers, the chef, cooks, dishwashers, delivery staff, and maintenance staff. How would you feel about the restaurant if any one of these workers were rude to you? How would you feel if any one of these workers were, instead, particularly helpful and pleasant?

Employees of a company interact with customers in many ways. A **contact point** is an instance when an employee and a customer interact, 46-6. Contact points include the obvious: situations in which sales and customer service employees work with customers to meet their needs. Contact points also include the less obvious: when other staff members interact with customers.



Reality Check

Think of a salesperson whom you know or have met. Describe the quality of customer service that salesperson provides.



46-6

A contact point is any instance when an employee and a customer interact. It can include in-person, phone, and written interactions.

For example, suppose a customer calls a business, but gets transferred to the wrong person. The way that “wrong” person reacts to the call will have a great impact on the customer’s satisfaction and image of the company. If the “wrong” person acts irritated and says negative things about the company operator, the customer will get a bad impression of the company and will be dissatisfied. If the “wrong” person is gracious and helpful, the customer will get a good impression and will be more satisfied.



Reality Check

Describe a situation in which the “wrong” person helped you.

Exceptional Customer Service

Exceptional customer service depends on actions by both the management of the company and by the employees.

Company Actions

It is not enough for management to say they are committed to exceptional customer service. Management must develop actions to ensure exceptional customer service throughout the entire company. Companies can take these three actions: (1) establish customer friendly policies, (2) provide training, and (3) treat employees as valued members of the team.

Customer-Friendly Policies

Customer-friendly policies are policies that put customer satisfaction first. Examples include accepting credit, accepting returns for full refund, and providing free gift wrapping. Many of these policies are costly to the company. For that reason, a company may decide that it cannot afford some of them. For example, a company might decide that it cannot afford to extend credit. If a company has policies that customers might object to, the company should train staff how to present those policies and deal with any negative customer responses to them.

Training

Employee training is essential for exceptional customer service. It is not enough to have employees memorize a list of policies

and behaviors. They need experiential training, including role-playing, observation, and supervised experiences with customers.

Treatment of Employees

People tend to treat others the way they are treated. When employees are treated as valued members of the team, they can in turn treat customers as valued participants in the business, 46-7.

The Ritz-Carlton Hotels and Resorts are famous for their exceptional customer service. The management of the Ritz-Carlton provides excellent examples of the three actions. The company puts the comfort and satisfaction of their customers first. The Ritz-Carlton provides over 120 hours of training to each employee every year. (That's 15 full days of training a year!) The company is

dedicated to treating guests and each other with respect and dignity.



Reality Check

Describe a situation in which the way you were treated affected the way you treated another person.

Employee Actions

Exceptional customer service is based on employee actions. Many of the basics can be done no matter where you work:

- Act with honesty, respect, and integrity.
- Treat all customers and coworkers with respect and dignity.



Photo courtesy of IGA, Inc.

46-7

This company involves employees from all levels in their meetings.

- Smile, 46-8.
- Maintain positive eye contact.
- Use positive expressions, for example, "Good morning," "Certainly," "I'll be happy to," and "My pleasure."
- Be an ambassador for your company. Always talk positively.
- If you notice problems, communicate them to the appropriate person, 46-9.
- Use good telephone etiquette. Answer the phone promptly. Smile. It will show in your voice. Use the caller's name when possible. Avoid placing callers on hold if at all possible.
- Take pride and care in your personal appearance.
- Think safety first. Know all fire and emergency procedures. Report safety and security risks immediately.
- Protect your company's assets. Handle all equipment and materials properly.
- Know company policy for handling complaints and problems. Know whom to go to if you have a customer problem that you cannot solve.



46-8

A smile goes a long way toward making others feel comfortable.



Reality Check

Describe a situation in which you have received or observed exceptional customer service.

Handling Problems

Customers bring all kinds of problems with them. Customers also create problems when they disagree with store policies or make unreasonable demands. The following are some common customer service problems:

- Store is out of stock.
- Store does not have the right size or color.
- Salesperson does not speak the customer's language.
- Customer becomes angry or upset over a store policy; for example, the store does not take his credit card or will not accept her return for full cash refund.
- Customer enters store angry or in a bad mood.
- Not enough staff is available to efficiently help customers.

A few companies at the pinnacle of customer service empower their employees to do whatever it takes to solve a customer's problem. However, most companies do not empower their employees in this way. Therefore, you must know what your company empowers you to do. For example, your company may empower you to accept returned merchandise for store credit, but not a cash refund. Suppose you have a customer who insists on a cash refund. You need to know how to handle that situation. No matter what your company's policy is, you can be polite and sympathetic to the customer. Listen to the customer without interruptions. Express sincere concern for the customer's situation. Ask appropriate

**46-9**

As soon as you notice a problem, communicate it to the right person.

questions. If you cannot help the customer, know to whom to refer the customer. If you can, escort the customer to that person.

With the increase in international tourism and immigration, you are likely to encounter customers who do not know English. You may also have occasion to serve customers who use American Sign Language. Get to know which of your coworkers speak other languages and can help you with these customers. Learn some key phrases of languages commonly used by your customers, 46-10. If you have a chance, visit a community or country that speaks a language that you do not know. This experience will help you understand how your customers feel. It will also help you learn ways to communicate when you do not know the language.

You are not responsible for the bad mood or anger that a customer brings with him or her. However, the way you respond can make the situation better or worse. Respond to such customers with kindness and sympathy. Learn how to manage your emotions so that you remain calm and positive. Know whom you can call if you need help. If a customer seems irrational or dangerous, know how to get appropriate help.



Reality Check

Have you ever been a problem customer? Describe the situation. How did the salesperson treat you?



Photo courtesy of IGA, Inc.

46-10

Learn key phrases in the languages commonly used by your customers. This store provides signs in the three major languages used in its community.

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Remember This

- Customer services help customers buy or use the product or enjoy the shopping experience.
- The three levels of customer service quantity in retail are (1) self, (2) limited, and (3) full.
- Service quantity is the number of services offered. Service quality is the ability of a particular service to satisfy a customer.
- Each employee plays a role in providing exceptional customer service.
- To develop exceptional customer service, a company should have (1) customer-friendly policies, (2) offer training, and (3) treat employees as valued members of the team.
- Each individual employee can provide exceptional customer service, no matter where he or she works.

Review Concepts

1. What are customer services?
2. Describe and give an example of the three levels of customer service.
3. What is the difference between quality service and exceptional customer service?
4. Clearly sales and customer service employees provide customer service. How do other employees provide customer service?
5. Give an example of a contact point.

6. Describe three company actions that encourage exceptional customer service.
7. Give three examples of customer-friendly policies.
8. If you were an employee, what could you do to provide exceptional customer service? List at least six actions.
9. What should you do when customers create problems?
10. Why is it valuable to know another language?

Think Critically

1. Name a store that you visited recently. What customer services were provided? If there were none, what customer services would you have liked?
2. Imagine that you are entering a store where you have never shopped before. What would you see that would indicate the level of customer service?
3. What is your definition of quality customer service?
4. Make a list of products that can easily be sold by self-service. Then write a sentence or two that generally describes products that can be sold by self-service.
5. Imagine that you own a fast-food restaurant or a small retail store. Make a plan to ensure that you achieve exceptional customer service.
6. Imagine that you are a salesperson. A customer enters your area, and when you approach him or her, you discover that this customer is in a bad mood. What can you do to handle this situation?

CHAPTER 46 REVIEW

- Imagine that you are the manager of the sales staff in a department of a retail store. The store is very busy, and two of your sales associates called in sick. Customers are waiting for service. What would you say to them?

Connect to Business

- Talk with the manager at your workstation if you work in a retail store or the owner or manager of a local retail business or store department. Find out what guidelines sales and customer service staff receive. What kind of training do they get? Is any training in customer service given to workers other than the sales and customer service staff?
- Visit several retailers in your area, such as a large grocery store and a department store. Find at least one that has an area or department labeled "Customer Service." Find out what the area or department does. What kinds of services can you get in that area or department?

Explore Careers

- The main responsibility of many hotel workers is customer service. Use library and Internet resources to research the hotel and motel industry. What kinds of jobs are available? Also read the article "Hotel, Motel, and Resort Desk Clerks" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. Visit the Web site of the American Hotel & Lodging Association (www.ahla.com). Explore this Web site, including the "Career Center" link. How can this organization help people in hotel and lodging careers? Find the Web site of a hotel or motel. Find out what kinds of jobs are available. Would you like a job in the hotel industry? Explain why or why not.
- The supervisors of retail workers are called *sales worker supervisors*, *retail managers*, *sales managers*, or *department managers*. Find out what these workers do by reading the article "Sales Worker Supervisors" in the *Occupational Outlook Handbook*. Describe the job of a sales worker supervisor in a retail setting. What responsibilities do they have for customer service? Visit the Web site of the National Retail Federation (www.nrf.com) for more information on retail careers. Visit the Web site of a retailer, such as Home Depot (www.homedepot.com). Search the site for career information and job openings in retail management. Search the want ads in your local newspaper under "Sales" or "Retail Sales," or search an Internet job site such as www.ajb.dni.us (America's Job Bank) or www.monster.com. Find a retail management job that appeals to you. Describe the job and its responsibilities. What are the requirements? Would you like this job? Explain why or why not.
- Read the article "Customer Service Representatives" in the *Occupational Outlook Handbook*. Describe the common task that all customer service representatives perform. Make a list of the types of businesses that hire customer service representatives.

What kind of education and training is required? What has been the impact of technology on customer service jobs? Search the want ads in your local paper under "Customer Service," or search an Internet job site. Find a customer service job that appeals to you. Describe the job and its responsibilities. What are the requirements? Would you like this job? Explain why or why not.

Connect to the Internet

1. Do consumer Web sites offer customer service? Visit a variety of Web sites, for example, www.Amazon.com, which sells books, www.Nordstrom.com, an upscale retailer, and www.LLBean.com, which sells outdoor clothing and equipment. Describe the customer service at each site. Are there different levels of service? Create a poster that shows the different levels of customer service available on Web sites.
2. Visit the corporate Web site of a major company, such as Microsoft (www.Microsoft.com). Search the Web site for a mission statement. If there is none, search for another Web site until you find a mission statement. What does the mission statement say about the importance of customers and customer service?
3. Visit the Web site of the Ritz-Carlton Hotels and Resorts (www.ritzcarlton.com). How do the homepage and the Web site let you know that the quality of service is high? Find the Gold Standards. (Try the "About Us" link at the bottom of the homepage.) How do these standards help everyone at these hotels provide exceptional service?



How can you plan
for success?



PART 9

PROFESSIONAL DEVELOPMENT

47 Planning for Success

48 Developing Your Career Plan

49 Communicating for Success

50 Marketing Yourself

51 Achieving Success

52 Entrepreneurship

Planning for Success

Marketing Terms

goal
short-term goal
long-term goal
goal setting
plan
career plan
self-assessment
work values
aptitude
ability

After studying this chapter, you will be able to

- explain how planning can help you achieve your goals.
- describe the process of goal setting.
- develop short-term and long-term goals.
- explain how self-assessment can help you choose your goals.
- collect and analyze self-assessment information about your work values, interests, aptitudes, abilities, personal traits, and work focus.

What do you see in your future? Have you thought about what kind of life you would like after high school? Do you want to find a job right away, or do you want to continue your education at a technical school or college? Would you like to marry and have a family? Perhaps you would like to own a car, have your own place, or buy lots of clothes. Maybe you would rather travel around the world. What does success look like to you? What will make your life happy?

A major component of success in life is determined by what you do to earn a living. You will probably spend the next 40 years working, most likely at least eight hours a day, five days a week, 50 weeks a year. Imagine what your life would be like if you enjoy your job and are eager to go to work every day. Now is the time to start planning for your future, 47-1.

**47-1**

What are you doing right now to prepare for your future? What do you want for your future?



Reality Check

Imagine your life ten years from now. What would you like to be doing? Where would you like to be living? Who will be important in your life? What possessions will you own?

Why Plan?

Success and happiness usually do not happen by accident. Success is a lifelong journey. When you read about an “overnight success,” you usually discover that the person has been working hard for many, many years. Successful people often have a long-term goal, for example, to become a famous singer or president of a company. Successful people usually have a detailed plan for achieving that goal.

You may not have any goals or plans right now. However, now is the perfect time to start thinking and planning for your future. Learning how to plan can help you be successful in all areas of your life. Planning now for your future career can help assure your career success.

Planning actually has two parts. The first part is setting a goal. The second part is developing activities that will lead you to achieve your goal.

Goal Setting

A **goal** is something that you want to achieve. You can have a wide variety of goals. Areas in which people have goals include personal growth, finances, possessions, education, career, relationships, family, and community. For example, a personal growth goal might be to

successfully run a marathon, 47-2. An education goal might be to get a college degree.

The advantage of having a goal is that it can help you organize your activities to more efficiently achieve that goal. Having a goal is like having a target market. Once you know your goal, you can make decisions to help you reach that goal. Not having a goal is like being in an airport and taking the first plane you see. You may or may not like your destination! Instead, if you know where you want to go before you get to the airport, you will buy the proper ticket, get there on time, and arrive at your chosen destination. You



47-2

People have a variety of goals. Winning a race might be one.

may have delays along the way, but you are more likely to get to the destination you chose.

There are two basic types of goals: short-term and long-term. A **short-term goal** is a relatively small goal that is to be achieved in the near future. For example, running two miles today is a short-term goal. A **long-term goal** is a large goal that will take a relatively long time to achieve. For example, a long-term goal is to successfully run a marathon. In terms of schooling, a short-term goal is to get an A on Friday's test. A long-term goal is to get a college degree, 47-3. In terms of career, a short-term goal is to get a job as a cashier. A long-term goal is to become the vice-president of sales for a retail chain.



47-3

Earning a college degree is a long-term goal.

Goal setting is a process of deciding what you want to achieve. The goals you set for yourself have to make sense to you. Your goals must be based on who you are, your strengths, your interests, and what you want in life. Suppose you think it would be exciting to be a surgeon like one of the characters in a TV show. However, you have never liked biology or any science classes, and you never did that well in them. Choosing the goal of becoming a surgeon would not make sense for you. However, suppose you are a really good writer and enjoy working with words. You might like to become a writer in a hospital public relations department.

Useful goals are “smart.” That is, they have the following five qualities:

- S. Specific
- M. Measurable
- A. Action-oriented
- R. Realistic
- T. Timeline

The most helpful goals are specific. A specific goal points the way to achieving it. A general goal may be unclear or confusing. For example, a general goal might be to be a good runner. A specific goal would be to complete a marathon. A measurable goal enables you to tell when you have accomplished the goal. How can you tell when you are a good runner? That might be open to debate. You can tell when you have completed a marathon. A goal is usually more helpful when it includes an action that should be taken. “Being a good runner” is not an action statement. “Completing a marathon” is an action statement; it tells you the action required to accomplish the goal.

A goal should be realistic. In other words, the goal should make sense for who you are and what you want to achieve, 47-4. A goal should fit with your interests, abilities, and values. For example, if you were not interested in sports, it would not make sense



47-4

Your goals should fit who you are and make sense for you.

to have a goal of working for a sports arena. Goals can be difficult to achieve and still be realistic. The key to accomplishing a difficult goal is to have a good plan.

Useful goals also have a timeline. That is, a specific date is included for achieving the goal. If you do not specify a date for completion, you might never achieve the goal. The date can be modified as you work toward your goal.



Reality Check

Describe at least one goal that you have. Is it S.M.A.R.T.? If not, revise the goal so that it is S.M.A.R.T.

Action Plans

A **plan** is a list of steps that lead to accomplishment of a goal. The plans are often called *action plans* because you must take action in order for the plan to work. Action plans are especially helpful for long-term goals and for difficult goals.

An effective plan breaks a large or difficult goal into smaller steps. Each small step is relatively easy to accomplish. Accomplishing each step brings you closer to your goal. For example, a person who wants to run a marathon will develop a detailed training plan. First goals will consist of running one to five miles. Subsequent goals will add more miles until the person reaches the goal of 26 miles. It is usually helpful to write out your plan and the dates for each small step, 47-5.

In order to accomplish the goal, a person has to follow the plan. However, most people encounter a variety of roadblocks. For example, a runner may get shin splints or the flu. Achievement of a goal may depend on your persistence. Your ability to keep going and to solve problems that arise will

help you achieve your goal. A good motto to remember is "Winners never quit and quitters never win."

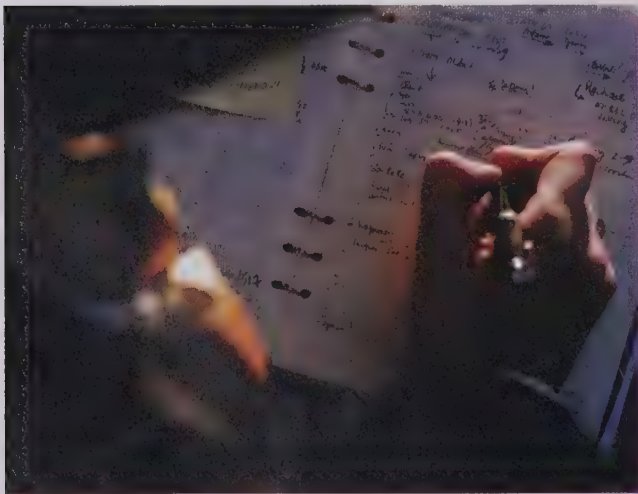
One of the things that often help motivate a person to achieve a goal is a clear vision of the goal. In this context, a vision is a vivid picture of accomplishing the goal. For example, the runner may have a picture in his or her mind of running across the finish line and being cheered by the crowd.

A career plan is a special type of action plan. A **career plan** is the list of steps that will enable you to achieve your career goal. You will learn more about making a career plan in Chapter 48. However, before you can set a career goal and develop a career plan, you need to know more about yourself.



Reality Check

Give an example of an action plan that you have used. If you cannot think of one, make up a reasonable action plan for a reasonable goal.



47-5

A planner, either on paper or on a computer, is very helpful for recording the steps of your plan and their due dates.

Growth and Change

Is career planning a one-time effort? Not usually. Career planning is a lifelong process. Think about how much you have changed in the past few years. Although your physical growth rate will slow down, you will continue to grow mentally, socially, and in your education and career throughout your life.

If teenagers are going to change anyway, what good is it to make a career plan now? Making a career plan now points you in a direction that enables you to gain experience and expertise in a particular area. Many people float along for years because they have not made any career decisions. They take whatever job comes along. They never assess their interests and aptitudes or try to match them to a career. These people are often very unhappy in their jobs.

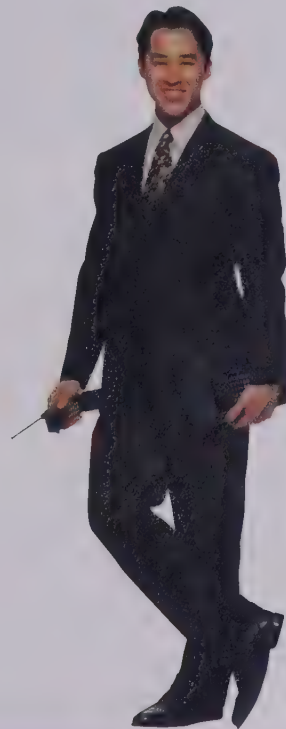
If you know yourself well as a teenager and make a good career plan, you are building a solid foundation for your future career growth. As you pursue a specific career goal and plan, you learn a great deal about yourself and the career. You might also discover that the career is not right for you. You have not wasted your time pursuing the wrong career. If you know how to assess yourself and develop a career plan, you will have gathered important information about yourself and the world of work. You can use this information to develop your next career goal and plan.

During most of the twentieth century, people tended to get a job and stay with it their entire lives. Since the late twentieth century, it has been rare for a person to stay in one job, or even one career, for their entire lives. Career counselors observe that the average person may have as many as

five different careers over the course of a lifetime, 47-6.

Part of the reason that people change careers so often is that the world of work keeps changing. New technology leads to changes in job requirements. For example, during most of the twentieth century, books were printed by a process called typesetting. Metal letters had to be carefully placed in a tray to spell out each word on each page in the book. With the development of the computer, computerized typesetting was developed. Typesetting no longer required the manual labor of moving metal letters in heavy metal trays. Most typesetters lost their jobs during this period of technological change. Their jobs ceased to exist.

Changes in the local and world economy also result in changes in jobs. During a recession many businesses fail, and it may be hard to get the same kind of job you

**47-6**

Many people have more than one career. A person might start out as a kindergarten teacher, then switch to graphic artist, and then eventually become an account executive for an advertising agency.

were doing. Changes in the worldwide economy may cause your industry to move overseas. People who are able to assess their skills and update their career plans are in the best situation to continually find good employment.

Learning About Yourself

Making decisions for yourself can be challenging. Which electives do you want to take? Which co-op job would be best for you? After high school, should you go straight to work or get more education? Which career should you choose? These decisions should be based on who you are and what you want. However, sometimes it is hard to know yourself and what you want.

Self-assessment is the process of learning about yourself. There are many ways to assess yourself. One way is to reflect on your experiences. What do you do well? In which classes are you most alert and interested? How do you feel after you participate in a sport or committee meeting? How do you feel after babysitting or fixing your bike? Which activities make you feel good about yourself and others?

You can begin the process of self-assessment right now. The following sections will help you explore your work values, interests, aptitudes, abilities, personal traits, and work focus.

It is very helpful to keep a journal to record what you learn about yourself. The process of writing down your interests, aptitudes, and so on will help you analyze them; then you can make decisions based on your interests, aptitudes, and so on. In addition, you will change and grow as you learn more about the world of work and yourself. You can use your journal to record and monitor these changes, 47-7. This information can provide the basis for new career plans.

Work Values

What do you want from a job? The question is more complex than it seems at first. Career counselors have discovered that people are often happiest at jobs that meet their values. For example, some people value working outside. Such people are usually very unhappy in office jobs. Such people would probably be happier in an outside sales job than in an inside telemarketer job.

Work values are the aspects of work that are most important to you. Work values are neither good nor bad. They represent what you want from a job or career. Some of your work values you will not discover until you have experience in the workplace.

Four of the areas in which to consider work values are (1) work environment, (2) activity level, (3) control, and (4) rewards. The two basic categories of work environment are inside or outside. Inside work requires you to go to the same place of work everyday, 47-8. Inside workplaces vary from large to small, upscale to budget, warm to professional. Outside work in marketing usually refers to outside sales. The sales representative goes to the location of the client. Consultants in various marketing specialties also go to the client.

Some jobs require a great deal of physical activity and stamina. For example, most sales jobs, warehouse jobs, and teaching jobs involve a high level of physical activity. Jobs in telemarketing, graphic arts, copywriting, and marketing research usually involve less activity.

Control refers to how much you, as the worker, control what you do on the job. Some jobs require that you follow very strict and precise procedures. For example, a telemarketer may have a set script that must be read. Other jobs give the worker much more control of how the job gets done. For example, an outside sales representative can decide which clients to visit on which days, as well as develop his or her own sales approach.

**47-7**

Whether you keep a journal in your computer or in a paper notebook, keeping a journal is a valuable tool for learning about yourself and planning your future.

Rewards are related to the salary and satisfaction you get from a job. Some jobs have higher salaries than others. However, higher salary jobs often require higher education, harder work, and more stress. You need to consider many aspects of the job, not just salary. However, salary is an important consideration.

Interests

Interests are those things that capture your attention and that you are willing to spend time on. What do you enjoy doing during your spare time? What hobbies do

you have? What do you enjoy reading? What is your favorite subject in school?

What organizations do you belong to? School clubs, school government, scouting, social clubs, sports clubs, religious clubs, and other youth organizations in which you participate indicate your interests. Participation in student career and technical organizations can help you learn about yourself and your interests, 47-9.

Another way to become more aware of your interests is to take an activities preference inventory. The preference inventory is a test to determine which activities you prefer when you are given



© 2004 Photo courtesy of Reebok International Ltd.

47-8

Would you like to work inside a modern office building like this one?

a choice. Most high school guidance departments offer preference tests.



Reality Check

Make a list of your interests.

Aptitudes, Abilities, and Personal Traits

An **aptitude** is a natural talent or natural ability to do something. If you have an aptitude for something, you can do it or learn

it easily. For example, some people have an aptitude for working with numbers. Such people can easily learn the mathematics required for marketing research analysis. Someone who does not have this aptitude can learn the mathematics, but it would be harder. Such a person might not enjoy being a market research analyst, since that job requires using mathematics and statistics. People are usually happiest in jobs that use their aptitudes. A school counselor can give you an aptitude test to help you find out. This test will help you discover your natural strengths and weaknesses.



Photo courtesy of DECA—An Association of Marketing Students

47-9

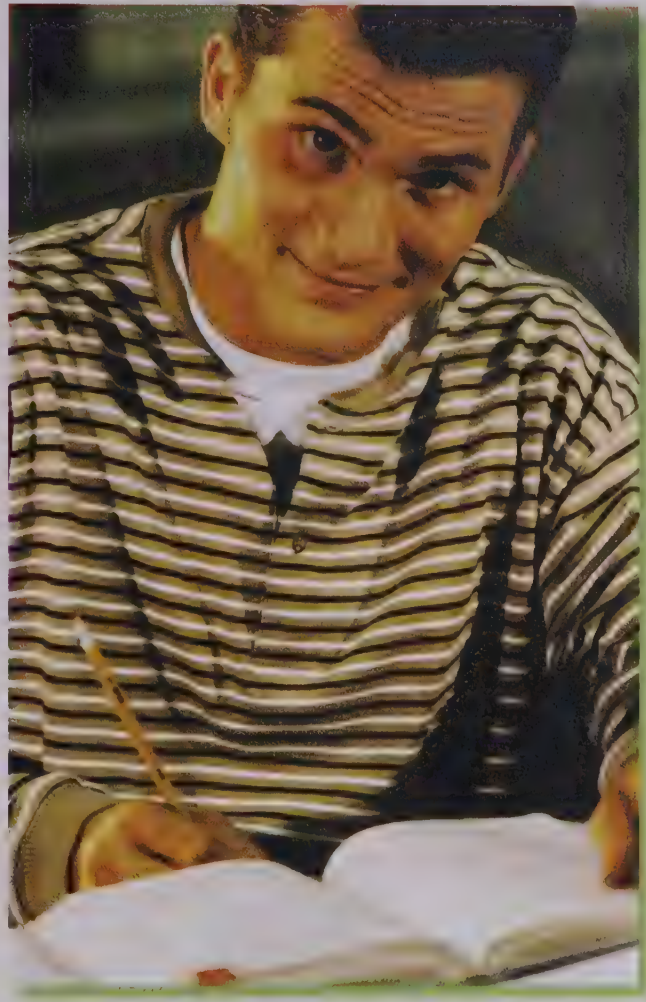
Participating in student career and technical organizations can help you learn about yourself and your interests.

An **ability** is the knowledge to perform a task. Having an ability often involves learning a skill or a set of skills. For example, most jobs require that you know how to read, write, and do arithmetic, 47-10. You have learned these skills in school. Another skill that you probably learned in school is how to use a word processing program on the computer.

Most jobs have their own set of specialized skills. You may need to learn these skills before you can get a job. Part of your career decision will be to decide whether you want to learn the skills required or obtain the education required for a certain career. For example, most advertising jobs require a college degree.

Your personal traits also affect your career decision. You have a variety of personal traits, including physical traits and personality traits. Physical traits include how much energy and stamina you have. Many sales jobs require a great deal of physical stamina.

Personality traits include friendliness and creativity. For marketing jobs such

**47-10**

Many skills that you need in the work world, you have learned in school, such as reading, writing, and doing arithmetic.

as sales associate, friendliness is more important. For marketing jobs such as copywriter or art director, creativity is more important.

**Reality Check**

Make a list of your aptitudes, abilities, and personal traits.

Work Focus

There are many ways to analyze jobs. One of the most useful is to determine whether the job focuses on people, objects, or data. Although many jobs require that you work with all three, most jobs focus on one.

A people job focuses on working with people, usually helping them in some way. A sales job is a typical people job. Teaching is also a people job. An objects job focuses on working with objects to build or create things. For example, visual merchandising is an objects job because visual merchandisers are focused on arranging items in space to create a display. Data jobs focus on working with data, such as numbers, words, and information. A data job can involve doing research, accounting, or writing. Marketing research analyst and inventory management are data jobs. Figure 47-11 shows the general

characteristics of people who have each type of focus. A preference inventory, described in the section "Interests" can also help you discover your work focus.

Supervisors and managers usually have a people focus plus one of the others: objects or data. The major responsibility of supervisors and managers is to work with people so that they are productive on the job. Supervisors and managers also need to be strong in data because they usually are responsible for planning and organizing.



Reality Check

What can you see yourself doing for an eight-hour workday? Do you want to be working with people, things, or data?

General Characteristics of People for Each Type of Work Focus

People Focus	Objects Focus	Data Focus
Enjoy being in groups	Enjoy working alone	Enjoy working alone
Belong to one or more organizations	Like to build, cook, sew, paint	Like to write or work with numbers and computers
Volunteer to help others	Good at building or repairing things	Enjoy research and learning
Outgoing and friendly	Collect things	Read many books

47-11

If you know the work focus of a job and your characteristics, you can often tell if you will like the job.

Stedman Graham

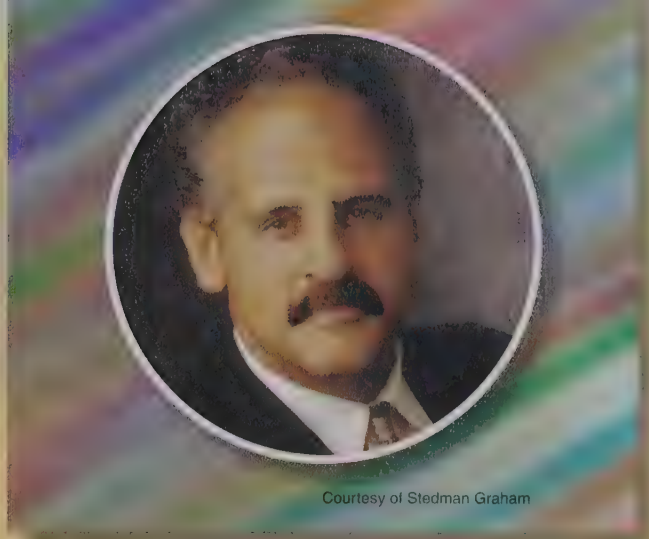
Helping People Create Their Own Success

Stedman Graham was 37. By most people's estimation, he was quite successful. He had gone to Hardin-Simmons University in Texas on an athletic scholarship. Stedman was the first in his family to go to college, and he graduated with a degree in social work. He served in the U.S. Army for three-and-a-half years and earned his master's degree while serving. He was director of education at the U.S. Metropolitan Correctional Center in Chicago. He then left that job to develop his own consulting firm, which was doing well. Yet he felt insecure and full of doubt.

Empowering Himself

Stedman examined his life and tried to figure out what his problem was. Two of his brothers were developmentally disabled, and during his childhood people had made fun of him and his family. He still carried around a sense of shame and inadequacy because of their comments. Also, he discovered that part of his self-doubt was based on being black. Thanks to mentors and friends, he realized that the color of his skin was not holding him back. He was holding himself back.

He started working on figuring out how to overcome what was holding him back. He realized that what other people say (or have said) about you doesn't matter. What matters is how you feel about yourself. You start feeling good about yourself when you know and understand yourself. When you have a vision of your possibilities and believe in yourself, you can create a successful life. Success is a process. Having good friends, family, and mentors helps you in this process.



Empowering Others

As a result of the success he was seeing in his own life, Stedman wanted to help others. He analyzed what he did. He realized that success is a process, and his process had nine steps. He developed these steps into two best-selling books, *You Can Make It Happen: A Nine-Step Plan for Success* and *Teens Can Make It Happen: Nine Steps to Success*. These books provide a step-by-step guide to getting to know yourself, setting goals, and developing plans for accomplishing those goals. Many people contacted Stedman to let him know that his books helped them a great deal. Stedman also began offering workshops based on his ideas.

He has recently published another book for teens, *Move Without the Ball: Put Your Skills and Magic to Work for You*. Although the book uses many examples from sports, the book is for all teens. It encourages young people to look beyond their current situation and even beyond their current goals to see new possibilities.

CHAPTER 47 REVIEW

Remember This

- Planning can help you achieve your goals.
- Useful goals are specific, measurable, action-oriented, realistic, and have a timeline (S.M.A.R.T.).
- Self-assessment helps you know yourself so that you can set goals that make sense for you.
- Self-assessment and career planning are a lifelong process.

Review Concepts

1. How can planning help you achieve success?
2. Name the two parts of planning.
3. What is the advantage of having a goal?
4. Explain the difference between short-term and long-term goals.
5. List the five qualities that a goal should have.
6. What is an action plan?
7. Career planning is a lifelong process. Why?
8. Why is it useful to assess yourself?
9. How can you assess yourself?
10. What is the difference between an aptitude and an ability?
11. List the three areas of work focus.

Think Critically

1. What is your definition of success? What do you need to feel that your life is successful?
2. For each of the following areas, name a goal that you have or would consider having: personal growth, finances, possessions, education, career, relationships, family, community.
3. Why should goals be S.M.A.R.T.?
4. How can having a clear vision of the goal motivate a person to achieve a goal?
5. In the four areas to consider work values, describe what you would like.
6. Do you prefer to work with people, objects, or data? Give your reasons.

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out how goal setting and action plans are used.
2. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out how jobs have changed over the past 10 or more years.



Explore Careers

1. Create your own career journal. Start with a section on self-assessment. Analyze your interests, aptitudes, abilities, and personal traits. Write about some possible goals. Choose one goal. Write a plan for achieving that goal. Make sure it is S.M.A.R.T.
2. You have learned about many careers during this course. Choose the one that interests you the most. Name that career in your journal. Explain how that career matches your work values, interests, aptitudes, abilities, personal traits, and work focus.

Connect to the Internet

1. Use a search engine and type in the keywords "goal setting." Browse the articles that appear. Choose the one that seems most helpful. Read that article. Then describe the useful suggestions for goal setting.
2. Use a search engine and type in the keywords "career aptitude tests." Find a free career aptitude test and take it. What did you learn about yourself and potential careers for you?
3. Visit the Web site of a college, university, or technical school. What kind of help can you find for determining which career is the best for you?

Developing Your Career Plan

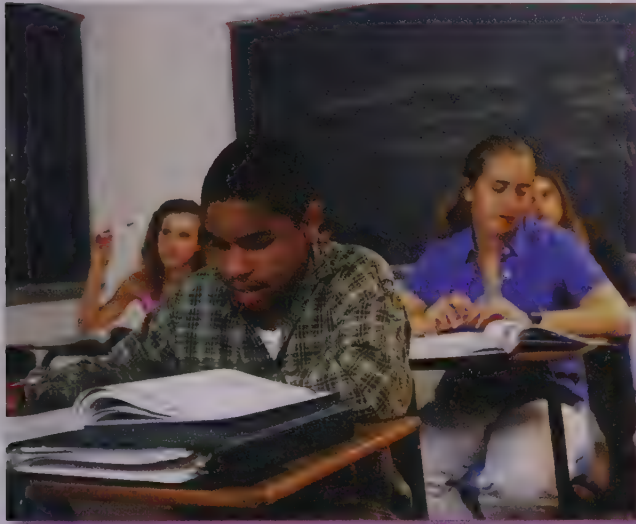
Marketing Terms

job
career
career ladder
entry-level job
manager
information interview
job shadowing
employment trend
cooperative education program
tech prep
postsecondary
career and technical student organization (CTSO)
distance learning
correspondence course
continuing professional education

After studying this chapter, you will be able to

- explain the difference between a job and a career.
- describe the levels in a career ladder.
- list three ways to learn about what it is like to have a certain career.
- list four sources of information on careers and employment trends.
- explain the importance of continuing professional education.
- develop your career plan.

The key to a successful career plan is to match your interests, aptitudes, abilities, personal traits, work values, and work focus to a career that makes the best use of them. In the previous chapter you began learning about yourself. In this chapter you will learn more about the world of work and the preparation required for various jobs and careers, 48-1.



48-1

A key to success in work is matching what you have learned about yourself to a career that makes use of your skills and abilities. Many careers require additional schooling.

Jobs and Careers

In the work world, the word *job* has two meanings. A *job* is a specific task done by a worker. A **job** is also a regular position that a person goes to every day, to perform tasks for pay for a specific business or organization. For example, a person can have a job as a retail sales associate for the local department store. On that job, the sales associate has the job (task) of restocking the shelves as products are sold.

A **career** is a series of related jobs in the same career area or occupation. *Occupation* is the term used for a specific career area, such as advertising or sales. With each job, a worker usually gains greater knowledge and expertise. The series of jobs often leads to more responsibility and higher income. Getting a job is often a short-term goal. Having a career is a long-term goal. Many career counselors recommend that you think in terms of developing a career.



Reality Check

Give an example of each of the meanings of the word job.

Career Ladders

Often each job in a career requires more education and experience than the previous job. A series of jobs organized in order of education and experience requirements is called a **career ladder**.

Entry-Level Jobs

The first job on a career ladder is called an **entry-level job**. Entry-level jobs require the least amount of education and experience. These first level jobs are called entry-level jobs because they are the jobs through which you enter the career. Some entry-level jobs have no education or experience requirements. Examples include cashiers, some sales jobs, and stock handler jobs. Other entry-level jobs require a four-year college degree. For example, most entry-level jobs in advertising, public relations, and marketing research require college degrees, 48-2.

Not everyone wants to climb the career ladder. Many people are happy in their first level jobs. These jobs suit their personalities, income requirements, and other needs. A person can turn an entry-level job into a career and perform the job with professionalism and great skill. For example, many retail sales associates make a career of retail sales.

Higher-Level Jobs

Some people are interested in moving up the career ladder. An entry-level job can be considered a stepping-stone to a higher-level



48-2

Many entry-level jobs in marketing careers require a college degree.

job. Each higher level on the career ladder requires more education or more experience or both. Each higher level on the career ladder usually involves more responsibility and more stress, but usually offers higher pay. Figure 48-3 shows a general career ladder in a corporation. Career ladders vary with the specific career and in specific companies.

A **manager** is a worker who directs the work of others and makes decisions. There are three levels of management: upper, middle, and supervisory. Small companies may have only two levels: upper and supervisory. Large companies may have several levels of management in the middle.

Upper management is the top level of management. It may also be called *top management*, *executive management*, or *senior management*. Upper management develops goals for the entire company and the strategies to meet those goals. *Supervisory management* is the level closest to the workers, 48-4. Supervisors are usually responsible for a specific department or area. *Middle management* consists of one or more levels of management between the top level and the supervisory level.

Researching Careers

Before you can match yourself to a career, you need to know something about the careers you are considering. This textbook gives you a good start by informing you about the field of marketing and what marketers do. However, the field of marketing is very large, and you will need to narrow down your choice to a career that really suits you. Some of the things you need to learn are what it is like to work as a marketer, what the companies that might hire you are like (company research), and the employment trends.

A Day in the Life

What is it really like to work in marketing? There are three main ways to find out: (1) talk to someone who works in marketing (information interview), (2) observe someone who works in marketing (job shadowing), and (3) get a job in marketing.

Information Interviews

One of the ways to learn about real life in marketing is to talk to someone currently in a marketing job. Talking to someone to learn about his or her career is called an **information interview**. Suppose you are

A Generalized Career Ladder at a Corporation

Career Level	General Description	Minimum Education or Experience Requirements	Relative Wages or Salary
Entry level	First job in the career area; worker must be trained and supervised	No experience or specific education required; high school diploma often preferred	\$
Levels 2 – 4	Knows job well and can perform it with little supervision; number of levels and the titles for these positions vary	One year or more experience usually required; high school diploma preferred	\$\$
Supervisor	Responsible for training and supervising employees	Two or more years of experience, or a 2-year college degree and one or more years of experience	\$\$\$
Manager	Responsible for running a department, including hiring and budgets	2-year college degree and 2 or more years of supervisor experience; a 4-year college degree often preferred	\$\$\$\$
Corporate manager	Responsible for a corporate division	4-year college degree and 10 or more years of management experience; graduate degree (MBA) often preferred	\$\$\$\$\$

48-3

A career ladder is a series of related jobs that require progressively more training, education, and/or experience.



Photo courtesy of IGA, Inc.

48-4

A supervisor is responsible for making sure workers know their jobs and for helping them perform their best.

interested in being an advertising copywriter. You could enlist the help of your teacher or guidance counselor to help you find an advertising copywriter to meet. You could arrange to have an information interview with the copywriter, 48-5.

Before the interview, develop a list of questions. The questions should cover what you most want to know about the career of copywriter. For example, you could ask the following questions. What do you like most about your job? How many hours do you work a day? What do you like least and most about your job? What was your first job in advertising? Which jobs and experiences were the most helpful in reaching your career goal? How much and what kind of education should I get? Do you have any advice for me?

**48-5**

Information interviews are a good way to learn about a career. It is a good idea to dress as if you were going to a job interview.

Job Shadowing

Another way to learn about a job is to watch someone doing it. **Job shadowing** is following a person while he or she does a job. Many schools arrange job shadowing for students. You could also see if you could set up job shadowing for yourself. Suppose you are interested in managing a hotel. You could call the manager of a nearby hotel. You could explain your interest in becoming a hotel manager. You could then ask if you could shadow him or her for a few hours.

Part-Time, Summer, and Co-op Jobs

An excellent way to learn about an industry is to actually work in the industry. As a student, you have several opportunities to work in marketing. You could get a part-time or a summer job at a retail business. In addition, your school may offer a cooperative education program (co-op program). In a cooperative education program, your school helps you find a job, where you work as part of your school program. Many schools also run school stores, where marketing students get a chance to learn a variety of marketing and business skills, 48-6.

**48-6**

Photo by Dominic Ierardi, Greater Lowell Technical High School

These students are learning how to complete a daily cash proof report for their school store.



Reality Check

Name a career in which you are interested.
Give three specific examples of what you might do to learn more about working in that career.

Company Research

Another way to learn about marketing is to learn about the companies in the industry. Most large corporations and many nonprofits have marketing departments. Many of these companies have Web sites with sections on careers and career opportunities. You can learn a great deal about a company and its career opportunities by exploring its Web site. Often listed are the available jobs, job descriptions, education and experience requirements, and salary. Many of the well-known marketing research companies also have Web sites, for example, Arbitron and J.D. Power and Associates. In addition, there are many library and Internet resources that profile businesses.

Employment Trends

An **employment trend** is the direction of change in the number of jobs in a particular career. Are the number of jobs increasing or decreasing in the career you are considering? It is always a good idea to look for a job in a career that is growing. For the near future, most occupations in marketing are growing. For example, the number of public relations manager jobs is expected to increase by 36 percent by the year 2010.

Areas that are not growing or are decreasing are purchasing, stocking, and warehousing jobs. Computers have made these jobs more efficient; therefore, fewer workers will be needed.

There are two points to keep in mind about employment trends. First, they can change quickly. There can be unexpected changes in the economy. If the economy

starts contracting, many marketing jobs may be lost. Also unexpected political events, such as war, can also affect employment.

Second, when you look for a job, the overall employment trends are not as important as the specific situation in the city where you are looking. In addition, many occupations that are not growing still need a large number of people each year. The reason is that each year a large number of people retire or change jobs.

Sources of Employment Information

There are many sources for information on careers and employment trends. Your library is a good place to start. Many libraries have career centers. A librarian can often help you find information on specific careers. Four general sources of information are the U.S. Department of Labor, professional associations, marketing publications, and student career and technical organizations.

U.S. Department of Labor

The U.S. Department of Labor's Bureau of Labor Statistics compiles and publishes a great deal of information on occupations, industries, and jobs in the United States. One of the most useful documents is the *Occupational Outlook Handbook*. The *Occupational Outlook Handbook* is available in most libraries and online, 48-7. The Web address is stats.bls.gov/oco. The *Handbook* provides information and statistics on a wide range of occupations and individual jobs. The information is revised every two years. The *Handbook* is one of the most up-to-date and comprehensive sources for this type of information. The *Handbook* is an excellent source of information on employment trends.

Another very useful publication is the *Occupational Outlook Quarterly*, published by the U.S. Department of Labor, Bureau of Labor Statistics. It covers a



U.S. Department of Labor Bureau of Labor Statistics

Occupational Outlook Handbook

www.bls.gov

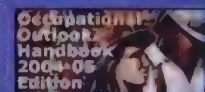
[BLS Home](#) | [Programs & Surveys](#) | [Get Detailed Statistics](#) | [Glossary](#) | [What's New](#) | [Find It in DOL](#)

[OOH Search/A-Z Index](#)

Occupational Outlook Handbook, 2004-05 Edition

You have **three ways** to find career information by occupation on this site:

- To find out about a *specific* occupation, click on the "OOH Search/A-Z Index" link located in the **upper right** corner of the page and then enter the occupation's name in the "Search OOH" box. [Search tips.](#)
- To find out about *multiple* occupations, browse through listings using the occupational cluster links to the **right**.
- For a listing of *all* occupations in alphabetical order, click on the "OOH Search/A-Z Index" link and select a letter.



- [Management](#)
- [Professional and Related](#)
- [Service](#)
- [Sales](#)
- [Administrative Support](#)
- [Farming and Related](#)
- [Construction](#)
- [Installation and Related](#)
- [Production](#)
- [Transportation](#)
- [Job Opportunities in the Armed Forces](#)

■ [Tomorrow's Jobs](#)

The *Occupational Outlook Handbook* is a nationally recognized source of career information, designed to provide valuable assistance to individuals making decisions about their future work lives. Revised every two years, the *Handbook* describes what workers do on the job, working conditions, the training and education needed, earnings, and expected job prospects in a wide range of occupations.

48-7

Top: Photo by Jack Klasey; Bottom: stats.bls.gov/oco, 12/30/04

The *Occupational Outlook Handbook* is a useful source for researching jobs and careers. It is available at most libraries and on the Internet at stats.bls.gov/oco.

variety of topics in job search and career development, as well as ideas and information about specific careers. An online version is also available.

The U.S. Department of Labor also developed O*NET, an online, interactive career resource (online.onetcenter.org). This Web site enables you to research careers and their descriptions and match your skills to a career.

Another excellent resource is the CareerOneStop (www.careeronestop.org). It operates as a federal-state partnership and is a collection of electronic tools to help job seekers find jobs and employers find workers. It includes America's Job Bank, which is a listing of open jobs and resumes, and America's Career InfoNet, which includes information for making smart career

decisions, such as how to find schools and scholarship funds, 48-8.

Professional Associations

Many marketing occupations have a professional association. One of the largest associations is the American Marketing Association. Many of the individual careers have their own association. For example, in sales there is the National Retail Federation and the National Automobile Dealers Association. In advertising there is the American Association of Advertising Agencies. In the wholesale trade, there is the National Association of Wholesale-Distributors. The names of associations can be found in the *Occupational Outlook Handbook* or the *Directory of Associations*.

CAREER oneSTOP

CAREER INFO NET | JOB BANK | SERVICE LOCATOR | Site Map | Help

CLICK HERE TO TRANSLATE: | Site search: Enter Keyword

Financial Aid Advisor -- access to 4,400 scholarships, fellowships, loans and other financial assistance opportunities. [More >>](#)

Job Seekers/Workers | **Business/Human Resources**

Access over 1 million jobs, get labor market trends and tips, post your resume for thousands of employers, and MUCH MORE.

- [Post Your Resume*](#)
- [Search Job Listings](#)
- [Explore Wages & Occupational Trends](#)
- [Locate Potential Employers](#)

Access thousands of resumes, find tools for expanding your company, training your staff, and MUCH MORE.

- [Post Your Job Openings*](#)
- [Search Our Resume Database*](#)
- [Create Customized Job Descriptions](#)
- [Locate Other Employers By Industry](#)

Find It By Topic

- Employment Center
- Relocation Center
- Financial Aid Center
- Skills Center
- Business Center
- Training & Education
- Testing & Assessment
- Labor Market Info
- Career Tools
- Newsroom
- Outreach & Teaching Materials
- Materials

The Web site, CareerOneStop (www.careeronestop.org), is one of many Web sites where you can find information about scholarships and job openings.

Professional associations often provide continuing education, training seminars, and networking opportunities. Many also provide information about the industry and specific jobs within it. Many have a division or services specifically for students and others interested in the occupation. Many associations provide scholarships to students. Many have Web sites with detailed information.

Publications

There are many marketing-related newspapers, magazines, journals, and books. Many marketing associations have publications in their marketing area. Many are also available online. Some are available only to members, and others are more widely available. The *Wall Street Journal* is an excellent source for financial, business, and marketing news. The American Marketing Association publishes a variety of newspapers and journals, including *Marketing News*. Crain Communications, Inc., publishes a variety of newspapers and magazines, including *Advertising Age* and *B2B*. VNU Business Publications, USA, publishes *Adweek*, *Brandweek*, and *Sales and Marketing*, among others. Many publications also have Web sites.

Career Preparation

After you have completed researching careers, it may be very clear to you what your career goal is. If you are having trouble, your teacher or school guidance counselor may be able to help you. After you have your career goal, you need to learn the educational requirements needed to reach that career goal. Education and preparation for a career can be organized into three categories: (1) education, (2) training, and (3) continuing education.

Education

Education is the general process of acquiring knowledge and skills. Education can occur anywhere and continues throughout your life. However, *formal education* refers to the education you get from a school, college, or university. The level of formal education attained is usually confirmed by awarding the student a diploma, degree, or other document that verifies the level of education attained. Figure 48-9 shows the general order of degrees.

High School

For most jobs, the minimum educational requirement is a high school diploma. Very few jobs are available for people without a high school diploma. To an employer, the high school diploma indicates that you have basic skills in reading, writing, and arithmetic, 48-10. It also indicates that you were able to follow through on a course of study to its completion.

In addition, hundreds of high schools in the United States offer marketing education programs. General marketing courses provide an overview of the industry (similar to the course you are taking now).

A **cooperative education program** prepares students for an occupation through a paid job and classes at school. Cooperative education programs are also called *co-op programs*. The school's teacher-coordinator arranges for a local employer to provide job training. The student takes regular classes for half a day, and is dismissed from school early in order to go to work. A co-op student generally works between 15 and 20 hours a week. After completing a cooperative program, the student is prepared for a job or for more education.

Many high schools also offer a tech prep program. **Tech prep** is a career preparation

Degrees Obtained Through Formal Education

Degree	Description	Example of Degree	Careers That Usually Require or Prefer the Degree
High School Diploma	Obtained after completing four years of high school.		Retail Supervisor
Certificates	Obtained from a career center, vocational-technical school, professional career school, community college, or a professional organization. Focuses on a specific vocational skill or set of skills. Usually takes a year or less. Can be taken at any point in a person's career.	E-Commerce Protective Services Web Designer National Professional Certification in Customer Service Real Estate Certification	Real Estate Broker Security Officer Web Designer
Associate's Degree	Obtained from a community college, vocational-technical school, or professional career school. Focuses on career training. Usually takes two years.	Business Computer Graphics Marketing Small Business Management Technical Sales	Retail Management Trainee Technical Sales Representative
Bachelor's Degree	Obtained from a four-year college or university. Usually requires core courses such as English, math, and social sciences, followed by courses in a major subject or vocational area. Usually takes four years.	Business Communications Entrepreneurship Industrial Distribution Management International Business Marketing Production and Management Science Public Relations	Advertising Account Representative Advertising Copywriter Public Relations Specialist Teaching Warehouse Manager
Master's Degree	Obtained from a college or university, after the bachelor's degree has been obtained. Usually intensive, advanced study in a specific area. Length of time varies, depending on whether student is going to school full-time or part-time.	Entrepreneurship International Business Marketing Operations Real Estate	Middle Management Upper Management
Doctorate Degree	Obtained from a college or university, after the bachelor's degree has been obtained. Requires more courses and a doctoral dissertation. Usually takes four or more years beyond the bachelor's degree. Often required for careers in research or college teaching.	Econometrics and Statistics Marketing Organizations and Markets	Director of Research Executive Management University Professor



48-10

High school is where you learn basic skills on which to build a career or continue to postsecondary school or college. Many high schools also offer marketing courses and other career-based programs.

program that combines the last two years of high school with two years of postsecondary education. **Postsecondary** means after high school. Tech prep programs are also called 2 + 2 programs (2 years of high school plus 2 years of postsecondary school). The postsecondary classes are often taken at a community college or a professional career school. At the end of the program, the student has a high school diploma and an associate degree or a technical certificate. The student is prepared to enter the workforce or continue his or her education at a four-year college.

Career and Technical Student Organizations

Many high schools offer students the opportunity to join a career and technical student organization. A **career and technical student organization (CTSO)** is an organization for high school students interested in a career area such as marketing. CTSOs provide a variety of activities that enable students to learn more about the career; meet professionals in the field; and develop interpersonal, leadership, career, and technical skills, 48-11. In addition, many career and technical student organizations offer scholarships.

A CTSO will usually have a chapter in a school. Students join the school chapter. Through the school chapter, students participate in chapter meetings and civic, service, social, and fund-raising activities. In addition, many CTSOs have competitive events. These competitive events provide the opportunity for students to develop career and technical skills. Students can compete at the school, state, national, and international levels. Participating in competitive events can be a motivating experience. These four CTSOs have specific marketing activities: DECA—An Association of Marketing Students, Future Business Leaders of America (FBLA), Business Professionals of America (BPA), and SkillsUSA.

Postsecondary School

Postsecondary education is available at professional career schools, vocational-technical schools, and community colleges. These educational institutions offer education for specific careers. These programs can last from six months to two years, depending on the program. They usually include a combination of classroom learning and hands-on experience. These schools offer certificates, diplomas, and



Photo courtesy of DECA—An Association of Marketing Students

48-11

Career and technical student organizations give students an opportunity to meet professionals in the field and to develop career and leadership skills.

associate degrees in a variety of careers. Many schools have Web sites that provide detailed information about the school, the courses, degrees, costs, financial aid, admissions, and student life.

Professional career schools focus on preparing students for a specific career. In the marketing area, a common professional school is the real estate academy. These schools prepare students for careers in real estate and to pass the real estate licensing examinations, 48-12.

Community colleges are located all over the country. Most of them provide education in a variety of subjects, including marketing.

Community colleges offer certificates, diplomas, and associate of science degrees. Examples of programs include business administration, marketing, management, computer graphics, technical sales, and protective services.

Many business and career colleges offer diploma, certificate, and associate degrees, as well as bachelor's degrees in business and marketing and master's degrees in business. For example Robert Morris College offers associate and bachelor degrees in business. Majors offered include advertising, corporate communications, public relations, and real estate.



48-12

A professional career school can prepare you for a career in real estate.

College and University

Most management level positions require a bachelor's degree. Teaching also requires a bachelor's degree, 48-13. Bachelor's degrees can be obtained at four-year colleges and universities as well as technical and career colleges. A four-year college program usually requires that you take English, math, and social science courses in addition to courses in your major. Although professionals in marketing can major in any subject, many choose marketing and business majors. Most colleges and universities have Web sites

that provide detailed information about the school, the courses, degrees, costs, financial aid, admissions, and student life.

College can be expensive. However, U.S. Census Bureau statistics show people with college educations earn more than people with only a high school diploma. For example, in 2001, those households with college-educated wage earners earned an average of \$84,000. Those households with wage earners that have only a high school diploma averaged \$45,000. Graduate degrees increased the average household incomes to \$104,000.

There are many sources for money to help pay for college. Many professional organizations offer scholarships. Career and technical student organizations also provide many scholarship opportunities. For example, the DECA Scholarship Program provides over \$250,000 in scholarships each year, 48-14. Money for the scholarships is provided by more than 50 corporations.

At many colleges, a growing number of students never come to campus. These students are getting their college education through the Internet, satellite transmissions, videotapes, and CD-ROM programs. This type of education is called distance learning. **Distance learning** uses technology so that students can take courses without stepping into a classroom. Courses are held at off-campus locations such as at community libraries, local businesses, and public schools. Web-based courses are designed so that you can take them from your personal computer at home.

Graduate School

Graduate school is college or university education taken after the bachelor's degree has been received. The degrees offered are master's degrees and doctorate degrees. Many marketing professionals who want to be top-level managers find that a Master of Arts degree in business administration



Photo by Dominic Ierardi, Greater Lowell Technical High School

48-13

These two marketing teachers enjoy teaching students and running the school stores. A college degree and teaching credentials are required for a career in teaching.



Photo courtesy of DECA—An Association of Marketing Students

48-14

These four high school students are receiving scholarships from DECA, a career and technical student organization for students in marketing. These scholarships were sponsored by the Marriott Corporation, and presented by Andy Chaves (far right) at a DECA National Conference.

(MBA) is necessary. Many universities offer these programs on a part-time, evening basis, so that the student can continue working while getting the graduate degree.

**Reality Check**

Describe the education you think you will need for your career goal.

Training

Training is usually instruction on a specific skill or task needed for a job. Training often takes place on the job. However, some training programs are offered through colleges, universities, professional associations, and private companies.

On-the-Job Training

Most entry-level jobs provide on-the-job training. Higher-level jobs expect you to have some knowledge gained in school and experience from previous jobs. However, higher-level jobs usually provide some on-the-job training, 48-15. Every business has its own way of doing things. Every new employee will need some on-the-job training.

In addition, if a company gets new equipment or develops new procedures, it will usually provide on-the-job training for all employees using the new equipment or procedures.



Reality Check

Have you received on-the-job training?
Describe the experience.

Certificate Programs

Universities and colleges have also developed many nondegree training programs in business and marketing. Some



48-15

Higher-level jobs usually include some on-the-job training.

of these are intended for individuals entering the field, while others are designed for experienced executives. These nondegree training programs are called certificate programs. Certificate programs are perfect for the worker who needs advanced training, but has little time to spend going to school. These classes are also offered over the Internet for the convenience of the student. Certificate programs usually range from 15 to 24 credit hours of course work or approximately 5 to 8 courses.

Many professional associations have developed certificate programs. These programs are often offered at the annual conventions or through special classes. Colleges and universities also offer certificate programs. They may require specific work experience in addition to courses and exams. They may be available by correspondence courses or distance learning.

A **correspondence course** is a course in which the student and teacher communicate through the postal system or via the Internet. The teacher sends assignments to the student through the mail, and the student mails the assignments back to the teacher. (Correspondence courses were developed in the days before the Internet, but are still popular.) Correspondence courses and distance learning make professional development seminars and entire degree programs accessible worldwide, 48-16.

Most certification programs require students to take and pass a test. Once the certification course is completed and the test is passed, the student receives a certificate that states that he or she has mastered a certain type of knowledge or skill.

Continuing Professional Education

For a professional, learning never stops. In business and marketing, new technology, new products, and new procedures require new learning. New trends and changes

**48-16**

The Internet has made college degrees, certificate programs, and continuing professional education of all kinds available around the world.

in customer wants and needs also require new learning. **Continuing professional education** is education for people who have already completed their formal schooling and training. It is also called *professional development*.

Continuing professional education helps managers and workers keep up-to-date on new trends and issues. Some continuing professional education is sponsored by a person's employer and takes place on the job. Some employers will provide tuition money for professional education that takes place off

the job. Other professionals seek continuing education based on their own interest and commitment to their jobs.

Many community colleges, business and career colleges, four-year colleges, and universities offer continuing professional education. In addition, many professional associations provide continuing professional education, 48-17. Continuing professional education is often offered in the format of short courses and brief workshops and seminars. The Internet has made distance learning a very popular method for obtaining continuing professional education.

Your Career Plan

You should now have a better understanding about yourself, careers in marketing, and educational requirements. The challenge is to choose a career that matches your work values, interests, aptitudes, abilities, personal traits, and work focus. The career choice you make now is not necessarily permanent. People often change careers over the course of their working lives. However, making a career choice and setting a career goal in high school can be very beneficial. By making a commitment



Photo courtesy of the National Retail Federation, www.nrf.com

48-17

This educational event was provided by the National Retail Federation for retailers at a mall in South Carolina.

to a career, you will learn a great deal about the career and yourself. You will also have a solid way to earn a living. Once you have a career, you can always make changes along the way.

Once you have chosen your career goal, you can develop your career plan based on what you have learned about the educational requirements and the career. A career plan is

like a map that you use to guide you to your career goal. Many people can have the same career goal, but each one will develop his or her unique career plan. Also, a career plan is never final. It may change as you develop and gain experience in your career. Figure 48-18 shows a career plan for a student who wants to be a marketing director for a nonprofit.

Possible Career Plan for a Marketing Director for a Nonprofit Organization

	Education and Training	Job Experience	Extracurricular and Volunteer Activities
During Junior High School	Career exploration course	Summer camp counselor-in-training	Volunteer at animal shelter
During High School	Take college preparatory program and marketing courses	Co-op job, summer job as camp counselor, summer job as cashier	Join DECA, run for DECA officer, volunteer at animal shelter
During College	Obtain college degree in marketing	Internship in public relations at local hospital	Volunteer to do marketing for a nonprofit
After College	Take seminar in grant writing	Find a job in the marketing or fund-raising department of a nonprofit	Join the Association of Fund-raising Professionals

48-18

A career plan is a guide. A person might make changes to the plan as he or she learns and experiences more in courses and in work experience.

CHAPTER 48 REVIEW

Remember This

- A career is a series of related jobs in the same career area or occupation.
- A career ladder consists of an entry-level job, levels 2 – 4, supervisor, manager, and corporate manager.
- You can find out what it is like to have a certain career through (1) information interviews, (2) job shadowing, and (3) part-time, summer, and co-op jobs.
- Sources of information about careers and employment trends include (1) U.S. Department of Labor, (2) professional associations, (3) publications, and (4) career and technical student organizations.
- You can prepare for a career through education, training, and continuing education.
- Continuing professional education helps you keep up-to-date and be prepared for changes.

Review Concepts

1. What is the difference between a job and a career?
2. What is the difference between an entry-level job and higher-level jobs?
3. Describe the three levels of management.
4. List three ways that you could learn what it is like to have a certain career or job.
5. What resource person can help you find information about careers?

6. List four sources of information about careers and employment trends.
7. How could you find out what the education and training requirements are for a specific career?
8. What is the *Occupational Outlook Handbook*?
9. What is O*NET?
10. Suppose you decide on a career that requires additional formal education. What options do you have?
11. What is the value of a co-op job?
12. Imagine that you have been working in marketing for a while. A new technique has been developed, and you want to learn more about it. What could you do?

Think Critically

1. What could you learn from job shadowing?
2. How can political events and the economy affect employment trends?
3. Suppose you found the perfect career, but the employment trends were down. Why might it make sense to pursue the career anyway?
4. Why do you think the U.S. Department of Labor provides so much information about careers and finding jobs?
5. How can membership in a career and technical student organization help you learn about yourself, learn about careers, and prepare for a career?
6. In what ways are postsecondary schools different from colleges and universities?

CHAPTER 48 REVIEW

7. Different types of education and training are appropriate at different times. What kind of education and experience can you get now as a high school student? What would be appropriate during the five years after high school? What might be appropriate in 15 years?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out about the levels of management. Discuss the company or department's organizational chart. Also find out what the manager thinks the employment trends are for his or her business.
2. With the help of your teacher, find a person in the career of your choice for a job shadowing experience. After the experience, describe what this person does in a typical day. Do you think you would enjoy this job? Explain your answer.
3. Visit the Web site of A.C. Nielsen (acnielsen.com) or J.D. Power and Associates (www.jdpower.com). What new trends might affect business?
2. Design a career plan for yourself. Use the format for a career plan shown in Figure 48-18. Be as specific as possible. For example, if the career requires a college degree, name one or two colleges and what you would major in. Also include at least one professional organization that you could join.
3. The U.S. military employs people in a wide variety of marketing-related careers. Examples include graphic designers and illustrators, photographers, media and public affairs specialists, warehousing and distribution specialists, public information officers, transportation managers, logisticians, store managers, supply and warehousing managers. Read the article "Job Opportunities in the Armed Forces" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. For more information, visit the Web site www.todaysmilitary.com.

Explore Careers

1. Name the career that you would like to pursue. Use library resources, Internet, and the *Occupational Outlook Handbook* to learn about the career. Describe the duties and tasks, education and training required, the employment trends, and the salary.
2. Is there a company that you would like to work for? Some ideas include Hallmark Cards, PepsiCo, Liz Claiborne, Ford Motor Co., Walt Disney Co., TJX (parent company of T.J. Maxx and Marshalls), JC Penney, and DDB (advertising agency). Use a search engine

Connect to the Internet

1. Visit O*NET (online.onetcenter.org) and CareerOneStop (www.careeronestop.org). How can these Web sites help you make good career decisions? Browse both Web sites. Which information do you find most helpful? Describe that information and how it can help you.
2. Is there a company that you would like to work for? Some ideas include Hallmark Cards, PepsiCo, Liz Claiborne, Ford Motor Co., Walt Disney Co., TJX (parent company of T.J. Maxx and Marshalls), JC Penney, and DDB (advertising agency). Use a search engine



to find the company's Web site. Visit the Web site. Is there a section on careers or job opportunities? If yes, what kind of information is provided? Are there any jobs currently open? Would you be interested in any of these jobs?

3. The Internet is a great resource for researching colleges and scholarships. Visit the following Web sites: College

Answer (www.collegeanswer.com) and Sallie Mae (www.salliemae.com). Also, enter the keyword "scholarships" into a search engine. What can you learn about applying to and financing college? Visit the Web site of a college or postsecondary school that you are considering. What can you learn about the school from the Web site?

Communicating for Success

Marketing Terms

active listening
active reading
letterhead
memo
presentation
voice mail
cellular phone
headset

After studying this chapter,
you will be able to

- describe the communication process at work.
- explain the role of Standard English.
- list six suggestions to improve your receiver skills.
- list four general sender skills.
- explain the four steps in planning and revising written and spoken communication.
- compare and contrast a business letter and a memo.
- describe how voice mail, e-mail, cellular phones, and headsets are used for communication at work.
- describe nonverbal communication at work.

Imagine yourself at a job interview. You know that you are the best person for the job. What does the interviewer know about you? Looking at you, the interviewer will get nonverbal messages from your dress, posture, and behavior. How will you impress the interviewer with your knowledge and skills? You will have to communicate. Your communication skills may well determine whether or not you get the job, 49-1. If you get the job, your communication skills will determine how successful you are.



Reality Check

List three situations in which you would need communication skills during a job search.
List three situations in which you would need communication skills at work.

**49-1**

Imagine yourself at a job interview. How will you communicate your knowledge and skills?

The Communication Process at Work

Now that you have a career goal and a career plan, you are ready to start thinking about how to find that first job. However, before you can do that, you need to make sure your communication skills are at their best. Communications skills are key to success in all areas of life. They are particularly important for career success. In Parts 7 and 8, you learned about communication in general and communication as part of promotion and sales. This chapter will focus on communication skills for success in the world of work.

The Communication Process

In Chapter 34, you learned about the communication process. The communication process operates at work the same way it does in all other situations. There is a sender, a message, and a receiver. Often, there is feedback. Interference can also occur with communication at work. All four types of noise, as defined in Chapter

34, occur at work: physical noise, technical problems, external distractions, and internal distractions. Messages at work also have verbal and nonverbal elements.

For example, at an interview, you are the sender. The message is what you want to tell the interviewer about your skills and accomplishments. The receiver is the interviewer. Feedback occurs both verbally and nonverbally. You may experience internal distractions, such as nervousness, which may affect your behavior and interfere with your message.

The Language of Business

In Chapter 35, you learned about the encoding and decoding of messages. At work, it is important to choose the proper language for communication. In the United States and internationally, the language of business is Standard English, 49-2. Standard English includes all the generally accepted rules of grammar, spelling, word usage, and sentence and paragraph structure.

Using nonstandard English can create problems. If your message is misspelled or uses nonstandard grammar, the receiver might not understand the message. In

**49-2**

Standard English is the language of business in the United States and around the world.

addition, the receiver might think that the message is unreliable because of the spelling and grammar mistakes.

The only occasional exception may occur in advertising or when writing to a specific target market. In these situations, a decision may be made to use informal English or a dialect of English to make sure that the audience can understand and relate. Of course, if you were communicating with people whose language is not English, you would use their language. You would also take steps to ensure that their language is used correctly.



Reality Check

Do you speak Standard English? Describe the situations in which you do and do not use Standard English.

Effective Communication

Effective communication is communication that achieves the desired result. Understanding the communication process can help you develop more effective communication. First, focus on the purpose of the message. Is the goal to persuade, inform, or express? When you are interviewing for a job, your goal is to persuade the employer to hire you. When you are training a new employee, your goal is to inform the new employee so that he or she can perform the job properly. When you take a prospective client to lunch, your goal is to express, that is, to socialize and entertain so that the client will feel comfortable with you and ultimately buy your goods or services, 49-3.

The second focus is on the receiver. Who is the receiver for this message? In other words, who is the audience? The receiver could be the interviewer, your supervisor, the customer, or the entire target market. The



49-3

The business lunch is an important time for effective communication.

answer to this question leads you to develop the best way to communicate with the audience. How will you encode the message so that the audience can easily decode it? What language, medium, and tone are best?

The third focus is the feedback. At work, as well as other situations, paying attention to feedback is extremely important. Feedback in direct communications can be conveyed through words and facial expressions. To determine feedback from a target market, a formal marketing research study might be necessary.

When employers say they want good communication skills, what do they mean? They usually mean they want good *receiver skills* and good *sender skills*. Employers also want employees who use nonverbal communication appropriately.

Receiver Skills

The main receiver skills are listening and reading. Much of what you will learn about how to do your job you will learn by listening. Much of what you learn about customers you will learn by listening. Reading is also a crucial skill. You need good

reading skills to succeed in postsecondary education and on the job. Marketers in advertising, public relations, and logistics need especially good reading skills, 49-4.

General Receiver Skills

The key to effective listening and reading is to be active. It is possible to hear without listening. It is possible to read without understanding. Both listening and reading with understanding require active involvement of your brain and thought processes. The following are six suggestions that will help you be a better listener and reader:

- **Know Your Purpose.** When you attend a class, listen to a lecture, or participate in a meeting, you will be a better listener if you have a purpose in mind. When you read, you will have better comprehension if you know why you are reading. Examples of purposes include learning a new procedure, solving a problem, and understanding another person's point of view.

**49-4**

Much of what you learn on the job will be through reading and listening. Many jobs require excellent reading and listening skills in order to perform the job.

- **Focus on the Words.** Whether listening or reading, focus on the words and their meaning. Keep distracting thoughts out of your mind. Try to see in your mind's eye what the words are describing. If the speaker is within sight, look at the speaker.
- **Notice Nonverbal Messages.** In a lecture, the tone and pacing of the speaker's voice can cue you in to the important information. Also be alert for nonverbal messages that affect the meaning of the words. In text, headers, bold text, and layout of the pages can point you to the most important information.
- **Take Notes.** Taking notes helps you remember what you have heard or read. After you are done listening or reading, review your notes. Rewrite them or type them to make them clearer and more complete.
- **Review the Message.** To make sure that you have understood a message, repeat it to the sender. If you are reading, review or say out loud the items you need to remember.
- **Ask Questions.** Whether listening or reading, think of questions about the subject. Questions help you focus on the subject. Look for the answers while reading or listening. If the speaker is available, ask him or her a question.



Reality Check

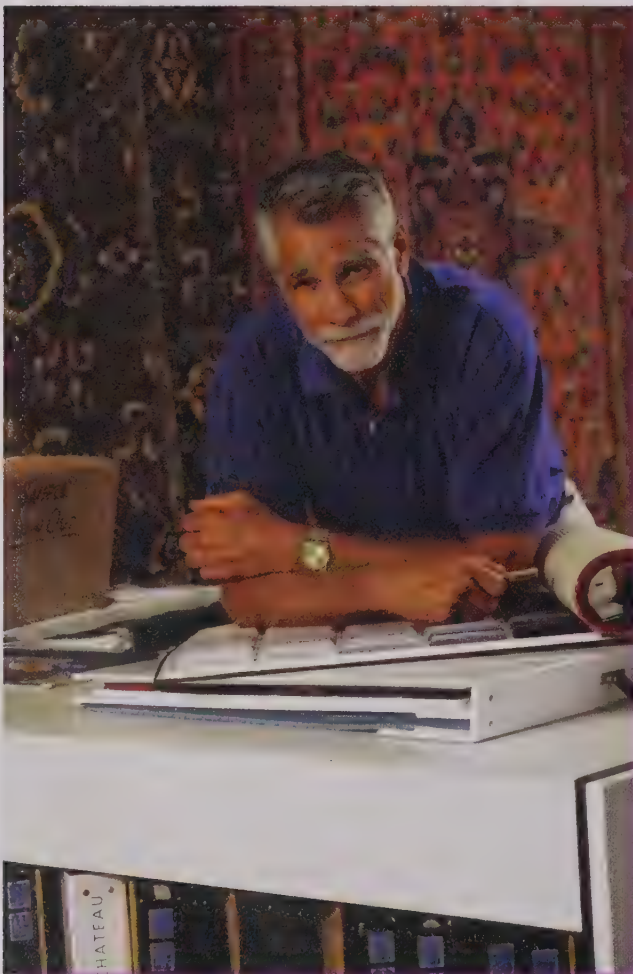
Think about the most recent class you attended. How much do you remember? List the receiver skills you used. How could you improve your receiver skills?

Listening

Effective listening is an active process. **Active listening** is listening in which the listener is thinking about what is being said.

An active listener uses the six suggestions to become actively involved in what is being said. Active listeners usually give nonverbal feedback to the speaker. By smiling, nodding your head, making eye contact, or saying, "I see," you can let the speaker know that you are paying attention.

Active listening is especially important for sales and customer service, 49-5. You need to pay attention when the customer is speaking. When you give positive nonverbal feedback to the customer, you make him or her feel important. The customer feels that you are really paying attention and trying to help.



49-5

Active listening is especially important for salespeople and customer service.

The opposite of active listening is passive listening. A *passive listener* does not pay attention to what is being said. The passive listener lets the words wash over him or her. A *careless listener* pays attention only to bits and pieces of what is being said. This type of selective listening leads to misunderstanding or taking words out of context. *Narrow listeners* pay attention only to the messages that match their preconceived ideas. They ignore other messages. *Defensive listeners* hear a hostile or negative message in what is being said.

Empathy

Empathy is a key to effective listening. *Empathy* is the process of seeing things from another person's point of view. Empathy enables you to understand how someone is feeling, even when you do not have the same feelings. For example, suppose a customer is angry because a product did not work as expected. The salesperson who empathizes understands the customer's anger, even though the salesperson is not similarly angry. The effective salesperson lets the customer know that he or she empathizes, by nodding the head and saying, "I can see why you are so angry," or similar words.

Barriers to Listening

There are many types of interference that keep receivers from understanding spoken messages. The following types of interference often occur at work:

- **Interruptions.** If you interrupt the speaker before he or she has finished, it is likely that both you (the listener) and the speaker will lose the train of thought. Keep paper and pencil with you to jot down questions as they arise.
- **Assumptions.** Assumptions occur when you assume that you already know what the speaker will say. As a result, you do not pay attention to what the speaker

actually says, and you might totally miss the message. For example, it is possible that the person has changed his or her viewpoint since your last conversation.

- **Prejudice.** For a variety of reasons, the listener may be prejudiced against the speaker. Prejudice interferes with understanding what a person is actually saying. It is a good idea to work on keeping an open mind while listening to any speaker.
- **Planning a Response.** If you are planning your response while the speaker is still speaking, you are likely to miss several of his or her points. Focus on the speaker, listen carefully, and then plan your response after the speaker finishes.



49-6

Active reading occurs when the reader is thinking about what he or she is reading. Active reading helps you understand and remember what you read.



Reality Check

Think of a situation in which you misunderstood a message. Which type of interference do you think occurred? Think of a situation in which someone misunderstood your message. Which type of interference do you think occurred?

Reading

Reading is one of the main ways of learning new information. An essential part of reading is understanding what you read. Reading on the job includes reading employee manuals, invoices, computer screens, e-mails, memos, and letters. Active reading is as important as active listening. **Active reading** is reading in which the reader is thinking about what he or she is reading, 49-6. The following suggestions can help you improve your reading comprehension.

- **Have a Purpose.** It often helps if you frame your purpose as a question. What question will this reading answer for you?
- **Scan First.** Look over the material, read the headings and captions, and look at the pictures. Scanning gives you an overview of the material. If you need to know more details, you will read the material more carefully. Scanning will give you a framework for the details.
- **Read for Meaning.** Make sure you understand what you are reading as you go along. Picture what the words are describing. Review the concepts in your mind. Take notes. Look up unfamiliar words in the dictionary. If you own the book, highlight key concepts.

Sender Skills

The main sender skills are writing and speaking. Marketing jobs in advertising, public relations, and marketing research require a great deal of writing. Sales and customer service jobs require a great deal of speaking. Marketers in all types of jobs, however, need both writing and speaking skills. Most marketers will have the need for writing business letters, memos, and reports. Most marketers will need speaking skills for informal business conversations, training others, and formal presentations.

General Sender Skills

A number of skills apply to both writing and speaking. The following four general skills will help you improve your writing and speaking skills: (1) planning and revising, (2) choosing a medium, (3) developing clarity, and (4) monitoring tone.

Planning and Revising

In our personal lives, we often speak and write automatically, without much planning. In business and marketing, the key to effective speaking and writing is planning and revising, 49-7. The following four steps will help you improve your sender skills.

1. **Plan.** Planning is figuring out what and how you want to communicate, before you write or speak. During planning, you decide your goal for the communication. You also decide who the receiver or audience will be. (This process is similar to determining your target market.) Once you know who your audience is, you learn about the audience's wants and needs so you can adapt the message to their needs. It is often helpful to keep a picture, either mental or actual, of your receiver in front of you. How do you want to send this message? You also decide which medium



49-7

A team may get together to plan and practice a presentation.

you will use to convey the message. Once you have all this background, you plan the message itself. Outlines are useful tools in planning written and oral communications.

2. **Execute.** The execute step is the actual writing of the message or presenting it orally. During this stage you need to choose your words carefully. For an oral presentation, this step includes practicing the presentation.
3. **Evaluate.** The evaluate step is when you get feedback on the communication. You can either evaluate it yourself, or you can have someone else do it. Checking written material for errors is called *proofreading*. You should always proofread your written work. Sometimes, it is a good idea to try out your message on your intended audience. You can have a few people from your audience read or listen to your communication and give you feedback.
4. **Revise.** During the revise step, you use feedback to improve the communication. You also use the revise step to adapt the message to the needs of your audience.

Repeat the evaluate step and the revise step until the communication achieves the goal you set in the first step.



Reality Check

Describe how you would use these four steps when preparing a sales presentation or an advertisement.

Choosing a Medium

Choosing the right medium for your message is a key decision. Marketers in advertising can choose from print ads, TV, radio, and the Internet. Part 7 discusses these

types of media. Marketers in other areas of marketing and businesspeople in general must choose the right medium for their messages, too.

For general business communications, four types of media are generally used: face-to-face, videoconferencing, voice-only, and written, 49-8. Face-to-face communications usually take place during formal and informal meetings. Videoconferencing is used when people must see and hear each other, but cannot all meet in the same physical location. Voice-only messages usually take place over the telephone. Written messages include letters, memos, faxes, and e-mail. Each choice has different advantages and disadvantages, 49-9.



49-8

Sometimes a face-to-face conversation is the best way to solve a problem or get a question answered. However, sometimes face-to-face meetings are not practical or even the best way to communicate certain messages.

Media for General Business Communication

Medium	Examples	Advantages	Disadvantages
Face-to-face	Meeting, visit	• Direct contact with receiver • Can use and receive nonverbal visual and oral communication • Able to adapt message based on immediate feedback	• Time consuming • May be costly if people have to travel • May be hard to find a time when all participants can meet • If emotions are high, the emotions can get out of hand
Videoconferencing	Meeting, visit	• Almost as good as being in the same place • Advances in technology allow documents to be shared • Can use and receive nonverbal visual and oral communication • Able to adapt message based on immediate feedback • Usually less expensive than flying people in	• Lack of informal interaction and bonding that occurs when people are in the same place at the same time • Room-based videoconferencing requires expensive equipment, software, and technical services • Time consuming • May be hard to find a time when all participants can meet • If emotions are high, the emotions can get out of hand
Voice-only	Telephone	• Can use and receive nonverbal oral feedback • Able to adapt message from immediate feedback • Cheaper than traveling if participants live far away	• No visual feedback • No opportunity for demonstrating products or processes • May be difficult to reach participants • If emotions are high, the emotions can get out of hand
Written	Formal letter, memo, fax, e-mail	• Sender has time to carefully prepare the message • Provides a written record of the issue or problem • Ensures that exactly the same information is given to a number of people • Often necessary for legal reasons • If emotions are high, sender can revise drafts until an appropriate tone is reached • Least expensive	• Letter can get lost or delayed • Message can be ignored by receiver • Lacks immediate feedback, therefore the sender cannot adapt the message to the receiver's needs • Written messages can be misunderstood • E-mail can be accidentally sent before the message is complete • Technical problems can prevent faxes and e-mail from being received • Faxes are often sent to a shared receiving machine and might be picked up by the wrong person

The message, the audience (receiver), the sender, and the situation must be considered when choosing the proper medium for a business communication.



Reality Check

Have you ever sent a letter or e-mail when you could have called or visited? Why did you choose a written message over a voice-only or face-to-face message?

Developing Clarity

Clarity is a major goal for written and spoken communications. Clarity of a message depends on many things, among them sentence structure, number of words, and word choice. Long and complicated sentence structure can be confusing. Using many words instead of a few can be confusing. Choosing words that your target market does not understand can be confusing.

Another aspect that affects clarity is concreteness. Concreteness is providing real and specific examples, rather than vague or general examples. Here is an example of a general sales statement: "You will like this bicycle." Here is an example of a concrete sales statement: "This bicycle will meet your needs because it is light like a racing bike, but it has the upright handlebars and a suspension seat post for a more comfortable ride."

Monitoring Tone

Tone refers to the feeling that the receiver gets from your words. In writing, tone is conveyed by word choice. You want to make sure that the tone of your writing matches the feeling you want to convey, 49-10.

In speaking, tone is conveyed by word choice and nonverbal elements. As you learned in Chapter 35, the nonverbal elements of voice include speed, pitch, and loudness. These elements can be combined to create the desired tone of voice. For example, the words, "May I help you?" can be said in a variety of tones, including friendly, bored, hostile, and tired.

Tone in Writing

Example	Tone
We look forward to your response to our inquiry.	Friendly
You must respond immediately.	Cold

49-10

Tone in writing is usually determined by word choice.



Reality Check

Have you ever been in a situation where you thought that the sender should have used a different tone? Describe the situation, the words, and how you would have changed the tone.

Workplace Writing

There are two basic types of workplace writing: business correspondence and reports. Business correspondence consists of letters and memos.

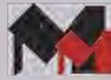
Business Letters

The standard business letter is written using a word processing program on a computer and printed on letterhead. **Letterhead** is stationery that has the name and address of the company printed at the top of the page. The company letterhead often includes the logo of the company. A sample business letter is shown in Figure 49-11. The standard business letter has eight parts:

- **Return Address.** Address of the sender.
- **Date.** Date the letter was written.
- **Inside Address.** Name, title, and address of the receiver.

General Business Letter Format

Return Address



Marketing Magic
555 Central Avenue
Tewksbury, MA 01876

Date

May 15, 2008

Inside Address

Jennifer Li, President
Asian Eatery
One Michigan Avenue
Chicago, IL 60611

Salutation

Dear Ms. Li:

Body

Thank you for giving our company the opportunity to bid on the marketing of your new restaurant. Thanks also for the detailed list that you sent concerning the kinds of marketing you expect to need.

I have enclosed a detailed bid. It is organized into core marketing activities and additional marketing activities, with prices indicated so that you can tailor the plan to meet both your timing and budget needs.

Please feel-free to contact me with any questions or if you need additional information about Marketing Magic's services. I look forward to hearing from you soon.

Close

Sincerely,

Signature

Cindy Bannerman

Cindy Bannerman
Account Executive

Informational
Notations

Encl.

- **Salutation.** Greeting, for example, Dear Ms. Rodriguez. A colon (:) follows the salutation.
- **Body.** The message.
- **Close.** Formal ending, for example, "Sincerely." A comma (,) follows the closing.
- **Signature.** Sender's signature. Under the signature appears the sender's typed name and title.
- **Informational Notations.** There are three types of informational notations: enclosures, copies, and reference initials. These notations appear in the lower left corner of the page. Sometimes additional documents are sent along with the letter. These are indicated by the abbreviation "Encl." often followed by a list of enclosures. Sometimes copies of a

letter are sent to one or more people. The abbreviation "cc" is used, followed by a list of people receiving the copies.

Sometimes the letter was typed or composed by someone other than the sender. This situation often occurs when a secretary or executive assistant handles correspondence for a manager. The initials of the sender appear in capital letters first, followed by the initials of the typist in lowercase letters. The initials are often separated by a colon or a slash.

Memos

A **memo** (short for *memorandum*) is a brief message sent to someone within your organization. A memo usually deals with only one topic or issue. Memos usually have a standard format, 49-12. The word *memo* or

General Memo Format



Marketing Magic

Memo

Date: April 18, 2008

To: Keisha Walsh, Designer

From: Cindy Bannerman, Account Executive

Subject: Menu Design for Li Bid

I need your fee recommendations for the design and maintenance of the Li menus (Asian Eatery) and related items by **April 30**.

Thanks!

memorandum appears at the top of the page. There are five parts and each of the headings is usually followed by a colon (:). The parts are

- **Date.** Date that the memo was sent.
- **To.** Receiver or receivers. In a small company, just the first names or initials of the receivers may be used. In a larger company, or if the memo is going to a superior, or if the memo is for a formal situation, the receiver's complete name and title are used.
- **From.** Sender. Use first names, initials, or full name with title, depending on situation.
- **Subject.** Brief description of the topic, the shorter the better.
- **Body.** Message.

Reports

A report is a longer discussion of a topic. The specific format and length depends on the type of report, its purpose, and the receivers. Many departments submit reports

at regular time intervals, such as weekly, monthly, or quarterly. These reports are usually brief.

Reports are often written to present new ideas, propose solutions to problems, or summarize work done to date. The four-step process of plan, execute, evaluate, and revise should be used.

Workplace Speaking

Workplace speaking includes speaking to customers and others outside the company and speaking to coworkers in your company. Part 8 presents concepts of communicating with customers. This section will refer to general speaking in the workplace, 49-13.

General Speaking Skills

The following guidelines will help you improve your speaking skills.

- **Use Standard English.** Most business situations require Standard English.
- **Speak Clearly.** If you speak too softly or mumble, practice saying each word more



49-13

Informal communication occurs everywhere in the business setting. Formal communication occurs at meetings and presentations.

clearly and projecting your voice. If you tend to run your words together, speak more slowly. Make sure there is nothing in your mouth, such as chewing gum, while you are speaking.

- **Make Eye Contact.** Making eye contact with the audience or receiver will help them get involved in what you are saying.
- **Develop a Friendly Tone.** Your tone of voice can either attract or repel your audience.
- **Eliminate Distracting Habits.** Distracting habits include words such as “you know” and physical habits such as hair twirling or cracking your knuckles.

Telephone Skills

The telephone is one of the major mediums of communication at work. Good telephone skills are essential. The following guidelines will help you improve your telephone skills.

- Smile when you answer the phone, 49-14. The act of smiling actually helps your words sound more friendly.
- Use the greeting specified by your company.
- When making a call, plan in advance.
- Have paper and pen available for taking messages or notes.

Presentation Skills

A **presentation** is a formal speech that presents information to the receiver. The receiver may be one person or many. Many presentations have the added goal of persuading the receiver. For example, a sales presentation tries to persuade the receiver to purchase the product. A product development team may present a new-product proposal to the entire marketing department. The goal is to persuade the company to develop the new product.



49-14

Smiling when you answer the phone makes your words sound more friendly.

Many elements go into a successful presentation. The four-step process of plan, execute, evaluate, and revise should be used. A critical aspect of a presentation is to keep the audience's attention and interest. Often, visual aids are helpful. In a sales presentation, the product being sold can be demonstrated. In other types of presentations, slides, charts, tables, and diagrams can be used, 49-15. Presentation software, such as PowerPoint, is widely used to make presentations easier to give and more interesting.



49-15

Visual aids are useful for all kinds of presentations. Traditional slides and charts are often as useful as presentation software such as PowerPoint.

Technology and Communication

Mediums of communication have changed greatly in the past decades. Technology is playing a larger and larger role in communication at work. Almost every business has a phone system with voice mail. Many businesses provide employees with computers, where they can access the Internet and communicate by e-mail. The following types of technology are commonly used for communication at work:

■ **Voice Mail.** **Voice mail** is technology for leaving a message when no one is

available to answer a telephone. Have you ever received a voice mail message that you could not understand? The most important advice for leaving voice mail is to speak slowly and pronounce each word clearly. Give the phone number at the beginning of the message and again at the end. Say the numbers slowly and distinctly. When you leave your name, spell it out.

■ **E-Mail.** *E-mail* is a message delivered from one computer to another. E-mail is widely used in business to send memos. When you use e-mail for sending memos, you should follow the format and rules for composing a paper memo,

49-16. Similarly, when you use e-mail for sending a more formal business letter, you should follow the format and rules for composing a paper letter.

- **Cellular Phones.** A **cellular phone** is a wireless, portable telephone that can send and receive voice messages in most areas. It is small and easy to carry. Cellular phones are particularly convenient for salespeople who travel. Cellular phones along with wireless Internet connections for laptop computers enable marketers to work almost anywhere.
- **Headsets.** A **headset** is a device connected to a telephone that enables you to use the telephone hands-free. Most telemarketers use headsets when answering the phone. Headsets enable them to type information from the customer into a computer at the same time as they are talking with the customer on the phone, 49-17.

Nonverbal Communication at Work

Most people think of work as a place with no nonverbal communication. However, nonverbal communication takes place everywhere. Nonverbal communication is as important at work as it is in your personal life. Body language, dress, artifacts, and written documents all convey nonverbal messages at work.

Body Language

As you learned in Chapter 35, body language is communication through facial expressions, gestures, body movements, and body position in space. By observing the body language of other people, you can learn something about how they are feeling. For example, a customer can convey interest, boredom, impatience, or anger through facial expressions.

From: Cindy Bannerman
To: Keisha Walsh
Subject: Menu Design for Li Bid

Sent: Fri 4/18/08

April 18, 2008

I need your fee recommendations for the design and maintenance of the Li menus (Asian Eatery) and related items by **April 30**.

Thanks!

49-16

E-mail memos should follow a format similar to a paper memo. Most e-mail forms have a space to fill in the subject line. When the e-mail is sent, the software often automatically fills in the "From" line and date stamps the message.

**49-17**

Headsets enable telemarketers and customer service representatives to talk on the phone while using a computer.

It is also important to be aware of your own nonverbal messages. You may think of yourself as a friendly person, but your facial expression might be very serious. You might have some unconscious habits that detract from your professional image. For example, nail biting or hair twirling make a person seem young, nervous, and inexperienced.

First impressions are very important in business. People make judgments based on first impressions, and first impressions often turn into a lasting image of you. First impressions are largely created by nonverbal messages. Posture, dress, facial expression,

and tone of voice all have a strong impact on first impressions.

In the business world, the handshake has become a nearly universal gesture of greeting. What kinds of messages could you send with a handshake? A limp handshake communicates insecurity, indifference, or dislike. An overly strong handshake can indicate an attempt to be controlling. A sweaty handshake indicates nervousness. A firm, but not too tight, handshake conveys confidence and friendliness, 49-18.

Keep in mind that culture has a strong effect on body language. In some cultures, people stand very close while talking; in other cultures, people stand farther apart. In some cultures, people use their hands a great deal while talking; in other cultures, people use their hands very little or not at all. Cultures also vary in the demonstration of affection. In some cultures, people hug and kiss a great deal; in other cultures, people are more reserved. In order to communicate well with people from other cultures, you need to recognize, understand, and respect the differences.

**49-18**

A firm handshake conveys confidence and friendliness.

Dress and Grooming

A major part of the impression you make on people is based on your dress and grooming. A first impression is mostly based on your dress, grooming, and posture. Your day-to-day dress and grooming also create an impression of who you are.

It is important to wear the appropriate clothing. For an interview, it is always appropriate to wear a suit. If you do not wear a suit, make sure your clothing is professional looking. Most places of work have a dress code. For example, a sales associate in an upscale boutique may be required to wear upscale tailored outfits. A sales associate in a toy store may be able to wear business casual, but no shorts or jeans.

Regardless of the dress code, you should always be well groomed, 49-19. Good grooming shows that you care about yourself and the opinion of others. Good grooming includes clean, well-cut hair; clean hands with neatly trimmed nails; and clothing that is clean and free of wrinkles. For more on dress and grooming, see Chapter 51.

Artifacts

Artifacts are objects and products that communicate information about oneself or one's status. Top executives often wear Rolex watches and use Monte Blanc pens to show their status. The size and location of your office are often an indication of your status in the company. Executives usually have large offices in the corner of the building, with many windows. An entry-level worker often works in a cubicle. A *cubicle* is a small work area partitioned off from a larger room. Often, a company will have a large room with rows and rows of cubicles.

The artifacts you use to decorate your office, cubicle, or locker is another way to communicate who you are. A person who is interested in golf might have a poster of Tiger



49-19

Regardless of the dress code at your place of work, you should always be well groomed.

Woods. A person who is interested in art might have a reproduction of a Rembrandt painting.



Reality Check

Think of a space that belongs to you, such as your locker or bedroom. What artifacts have you placed in that space? What do those artifacts communicate about you?

Written Documents

Imagine that you need to hire an assistant. You have two resumes in front of you. The first is crisply printed on high-quality paper. The information is well organized, with headings in bold. The second is an off-center photocopy on plain photocopy paper. The type on the paper looks like one solid block of print, with no headings to organize the material. Which resume makes a better impression? Which person is more likely to do neat, organized work?

The design and neatness of written materials convey a nonverbal message. As a result, it is very important to pay attention to the nonverbal messages from your written materials. Even a casual memo carries a nonverbal message.

Many marketers send a variety of written documents, from letters and memos to formal reports and proposals. The appearance of your written documents is as important as the contents. If your written documents are sloppy or if the paper is dirty or ragged, the impression will be very negative. Even if you do not have a budget for fancy covers or binding, you can still make sure a document is crisp, well formatted, and clean.



Reality Check

Look at or think of a paper you turned in recently at school. What nonverbal messages did that paper convey?

CHAPTER 49 REVIEW

Remember This

- The communication process operates at work the same way it does in all other situations.
- Standard English is the language of business.
- The following six suggestions will improve your receiver skills: (1) know your purpose, (2) focus on the words, (3) notice nonverbal messages, (4) take notes, (5) review the message, and (6) ask questions.
- Four general sender skills are (1) planning and revising, (2) choosing a medium, (3) developing clarity, and (4) monitoring tone.
- Planning and revising include these four steps: (1) plan, (2) execute, (3) evaluate, and (4) revise.
- Business correspondence includes letters and memos.
- Technology such as voice mail, e-mail, cellular phones, and headsets are widely used at work.
- Body language, dress, and artifacts convey nonverbal messages at work.

Review Concepts

1. True or False. The communication process at work is fundamentally different from the communication process elsewhere. Explain your answer.
2. How might using nonstandard English create problems?
3. What is effective communication?

4. Effective communication has three focuses. What are they?
5. Receiver skills are reading and listening. List six suggestions that will improve your receiver skills.
6. What is the difference between active listening and passive listening?
7. Describe empathy.
8. List four barriers to listening.
9. Give three suggestions for improving your reading comprehension.
10. The key to effective speaking and writing is planning and revising. List the four steps in planning and revising.
11. List five guidelines to improve your speaking skills.
12. List four guidelines to improve your telephone skills.
13. Does nonverbal communication occur in the workplace?
14. Give examples of nonverbal communication at work.

Think Critically

1. Why is Standard English the language of business in the United States and throughout the world?
2. Why do employers look for effective communication skills in employees?
3. Evaluate your listening and reading skills. How could you improve them?
4. Why is giving nonverbal feedback to the speaker important for a job in sales or customer service?
5. Evaluate your speaking skills. Do you have any distracting habits? What could you do to improve your speaking skills?

CHAPTER 49 REVIEW

6. How can a written document, such as a letter, resume, or report, communicate nonverbally?
7. Imagine that you are interviewing someone for a sales position in your retail store. What communication skills would you look for?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what communication skills he or she looks for when hiring new employees.
2. Make arrangements to observe a business meeting. Possibilities include a DECA meeting or meeting of another student organization, a meeting of the local government, or a meeting of local or national government on a cable TV station. Use your active listening skills. What is the purpose of the meeting? At the end of the meeting, was the purpose accomplished? Observe the verbal and nonverbal communication. Comment on the speaking skills of the best speaker. Comment on the speaking skills of the weakest speaker. What would you suggest to this speaker to improve his or her speaking skills? Did people at the meeting listen to each other? How could you tell?

Explore Careers

1. Businesses require telecommunications services. Read the article "Telecommunications" in the *Occupational Outlook*

Handbook, available in libraries or online at www.bls.gov/oco. Describe the telecommunications industry. How are advances in technology affecting this industry? List the occupations. Choose one of these occupations. Search for a job in this occupation in your local newspaper want ads or visit a job search Web site such as www.ajb.dni.us (America's Job Bank) or www.monster.com. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

2. The U.S. Postal Service continues to be a major method of communication for many businesses. Read the article "Postal Service Workers" in the *Occupational Outlook Handbook*. Describe the types of jobs available at a post office. Do any of these jobs appeal to you? Explain why or why not. Find out how to get a job in your local post office.

Connect to the Internet

1. Use a search engine and enter the keywords "cultural differences in nonverbal communication." Explore the kinds of cultural differences. Choose a country that you might visit as a businessperson. Make a list of recommendations and information to help businesspeople act appropriately when they visit.
2. Search the Internet to find companies that provide videoconferencing services. Describe what you would have to do to set up a videoconference at your place of work.

Marketing Terms

job lead
want ad
networking
letter of inquiry
reference
job application
resume
electronic resume
cover letter
portfolio

After studying this chapter,
you will be able to

- compare the job search process to a marketing campaign.
- list four steps in the job search process.
- explain how to find job leads.
- describe six written documents used in the job search process.
- describe four areas of preparation for an interview.
- describe how to follow up after an interview.

Imagine that you have received two birthday presents. One is attractively wrapped with gold foil paper and a big red bow, while the other is in a discount department store shopping bag. Which package do you think has the better present? Why? Does it have anything to do with the way it looks? Which one do you want to open first?

Although you may be surprised to find that the better present is actually in the discount department store bag, it is only natural to think that the better gift is the one that is more attractively wrapped. In the same way, when you present yourself during a job search, you will want to make sure that you have been “attractively wrapped.” You want to make sure that your applications, letters, and resumes are attractive as well as persuasive. You also want to make sure that you dress appropriately for interviews, 50-1.



50-1

Which person looks more ready for work?



Reality Check

Are you influenced by the way things are packaged? Can you tell a book by its cover?

A Marketing Attitude Toward Job Search

Throughout this book, you have learned many marketing strategies. Many of the same strategies marketers use for products can be applied to your job search, 50-2. You are the product. The employer is the target market. You want the employer to buy your services, by hiring you for a job and paying you wages.

First, make sure that you are the right product. You have to do your marketing

research on the jobs and employers. You also have to analyze yourself and make sure that you have the right stuff. Then you have to match your features with the needs of the right employer.

Second, think about the marketing concept. One of the major aspects of the marketing concept is meeting the needs of the customer. When you apply for a job, think in terms of what you can do for the employer. What are the employer's needs? How can you meet those needs? How can you contribute to making the business successful?

Third, market yourself to the employer. You have to make sure that you are appropriately packaged. You have to launch an organized promotional campaign.

You are now ready to market yourself. You have a career plan. You have brushed up your communication skills. You are ready

**50-2**

Apply the concepts you have learned about marketing a product to market yourself to an employer.

to find that first job on your career plan. You are ready to follow the steps for locating and securing employment. Keep in mind the marketing attitude toward job search as you follow these four steps: (1) finding leads, (2) applying for jobs, (3) interviewing, and (4) following up.

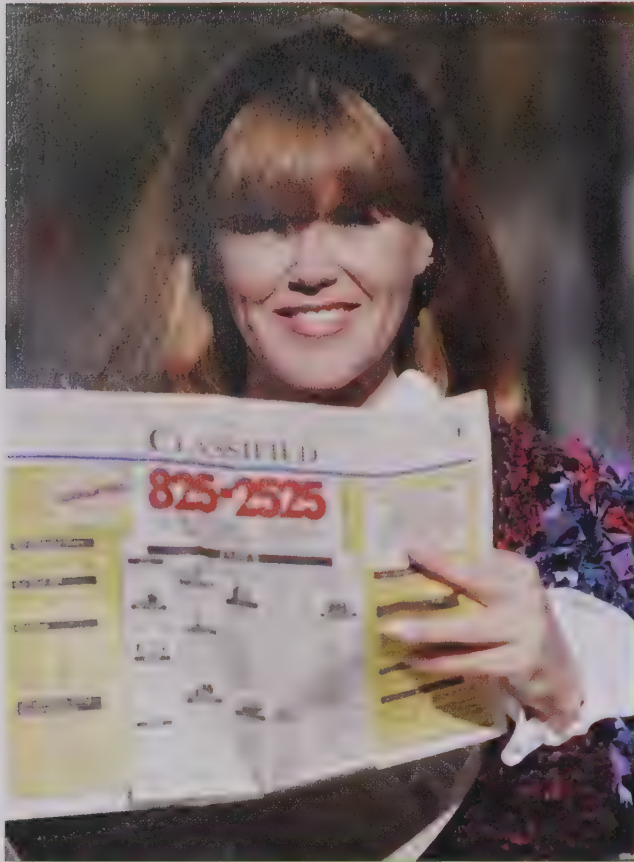
Finding Leads

A **job lead** is information that leads you to a job opening. Where can you find job leads? Job leads are all around, if you know where to look. The most common ways of finding job leads are (1) want ads, (2) the Internet, (3) networking, and (4) direct employer contact. It is also very important to keep track of job leads once you find them.

Want Ads

A **want ad** is a written advertisement for a job, placed by the company that needs the worker. Want ads appear in a variety of places, including newspaper classified sections, postings in the window of the business, and on the Internet. Want ads may also be posted on bulletin boards in local stores, libraries, community centers, and at school in your career guidance office.

The traditional place to start looking for a job is in the newspaper want ads, 50-3. Reading the want ads can give you a good idea of the types of jobs available and which companies are looking for employees. Newspaper want ads are often also posted on the newspaper's Web site. Research has shown that only about 15 percent of available



50-3

Newspaper want ads can give you an overview of the job market in your area.

jobs are advertised in the newspaper. However, people do find jobs through newspapers, so it is a good idea to check them first.



Reality Check

Which newspapers in your community carry want ads? Where else have you seen want ads?

Internet

The Internet has become a very popular place to look for job openings. If you do not have a computer at home, many libraries

provide free Internet access. One advantage of the Internet is that an Internet want ad often provides much more information than a newspaper want ad. You can also respond to the ad immediately by e-mail.

There are two ways to search for jobs on the Internet. First, you can search a Web site that specializes in listing jobs, 50-4. The advantage of a job Web site is that you can search by geographic location and job type.

The second way to search for job leads on the Internet is to visit the Web site of a company for which you would like to work. The company's Web site will provide a great deal of information about the company itself. Look at the "About" or "Corporate Information" links. In addition, many companies list their job openings. Look at the "Career Opportunities" or "Jobs" links.

If you respond to job leads over the Internet, keep this caution in mind, 50-5. Any information that you provide over the Internet is potentially available to everyone on the Internet. Do not provide your social security number, home address, or telephone number. If possible, have the company respond to your e-mail address. Alternatively, respond to the Internet jobs leads by U.S. Postal Service or fax.

Networking

One of the weaknesses of want ads, both in newspapers and on the Internet, is that a large number of people usually respond to the same ads. In other words, there is a tremendous amount of competition for each want ad job. In addition, many career counselors claim that only a small number of available jobs are advertised in newspapers or on the Internet. So what else can the job hunter do? Most career counselors will say to network.

Networking is the process of making connections with people in the work world. The idea behind networking is to meet people who are as enthusiastic about your

Some Web Sites That List Jobs

Source	Internet Address	Description
America's Job Bank	www.ajb.org	Part of CareerOneStop, a Web resource operating as a federal-state partnership and funded by state grants. Lists over one million jobs in the U.S.
Career Builder.com	www.careerbuilder.com	Commercial Web site. Works with over 130 local newspapers and provides information on 300,000 jobs representing more than 25,000 of the top employers in virtually every industry and field
Monster	www.monster.com	Commercial Web site. Lists over one million jobs worldwide

50-4

There are many Web sites that list job openings.



50-5

The Internet is an excellent place to search for job leads. However, do not provide any personal information, such as phone number and address, over the Internet. Such information is then potentially available to everyone on the Internet.

career area as you are. You get to know these people and share your enthusiasm. You also express your interest in finding a job in the career area. People who are in the position to hire often have a hard time finding the

right person. They often would be happy to consider someone whom they have met who has shown interest and commitment to their career area.

Where do you meet such people? One place is career and technical student organizations (CTSOs). One of the purposes of CTSOs is to put students in contact with professionals in their areas of career and technical interest. In addition, your school guidance or career counselor may be able to put you in touch with people. You can also network with family, neighbors, and friends, 50-6. They may not be in your career area, but they may know someone who is.

Take advantage of all the opportunities provided through your school. The counseling department and the career education department provide many ways to network. These departments may also receive notices of job openings, as well as other career information.

Networking should go on throughout your career, not just when you are job hunting. Networking keeps you up-to-date on changes in the field. Networking also can provide resources when you have problems to solve at work. Once you are in the work world, membership in a professional organization can be a good way to network.



50-6

Networking is a good way to find job leads throughout your career. You can network with family, neighbors, and friends, as well as professionals in your field.



Reality Check

Suppose you were looking for a job right now. List the people with whom you could network.

Direct Employer Contact

Many people are successful in finding jobs by directly contacting the employers for whom they would like to work. Direct contact is most successful when you have researched the company, know a great deal about it, and have a clear idea of what you can offer the company as an employee. Information about companies can be found at a chamber of commerce, the public library, and on the Internet.

The first step is to send a letter of inquiry. The purpose of a **letter of inquiry** is to express your interest in working for that

company, to highlight your qualifications, and to ask if there are any job openings, 50-7. The letter should be addressed to the person most likely to hire you. If you do not have that name, stop and do some more research. Determine which department you would like to work in and the name of the head of that department. Address the letter to the head of that department. Your resume may accompany the letter of inquiry. The letter of inquiry is slightly different from the cover letter (discussed later in this chapter).

The letter should describe why you are interested in that particular company, what type of job you are looking for, and what strengths and talents you would bring. Keep the letter to one page. Also ask for an appointment to visit the person to discuss your job possibilities. Follow up with a phone call. You might have to make several phone calls. Some companies have a policy of not responding to unsolicited resumes and letters.

For some entry-level jobs, such as sales associate or fast-food server, you can stop by the place of business and fill out an application, 50-8. It is generally not advisable to just show up at a business and ask to speak with someone about a job.

Keeping Track of Leads

One of the most important things to do while job hunting is to keep track of your leads. Set up a filing system, either on note cards or on the computer. For each lead, you should record the following information:

- name, address, phone number, and e-mail address of the company
- job title of the position you are seeking
- name and title of the person with whom you should speak
- source of the lead

There should be space for noting all contacts with the company. For example, if you send a resume, you should note the

Sample Letter of Inquiry

Dario Rodriguez
222 Diamond Avenue
Anytown, CA 95200
daro@provider.com

May 5, 2008

LaVerne Smith
Director, Human Resources
Sports & Entertainment Center
One Main Street
Anytown, CA 95200

Dear Ms. Smith:

I am an avid sports fan who has enjoyed many games at the Sports & Entertainment Center. As a result, I have always wanted to work there. I will graduate from high school in June and am looking for full-time employment. I would be particularly interested in working in a marketing or marketing-related area.

In high school, I took several marketing classes. All areas of marketing fascinate me, including advertising, sales, and customer service. I am fluent in Spanish and also excelled in English and math. Please see my resume for more details.

I would like to know if you have any full-time jobs appropriate for someone with my level of education. I can offer you an enthusiastic, hardworking employee. I would appreciate the opportunity to discuss job possibilities with you. I will call you next week to set up an interview at a mutually convenient time. Thanks for your time and interest.

Sincerely,


Dario Rodriguez

Encl: Resume

50-7

A letter of inquiry should be sent before directly contacting an employer. It should always start with the reason why you are interested in that particular company, based either on your experience or your research.

date that you sent it. If you call the company and speak with someone, you should record the date and time of the call, the name and title of the person you spoke with, and the content of the discussion. In addition, if you have a paper ad or have printed information from the Internet, that information should also be filed in an orderly way.

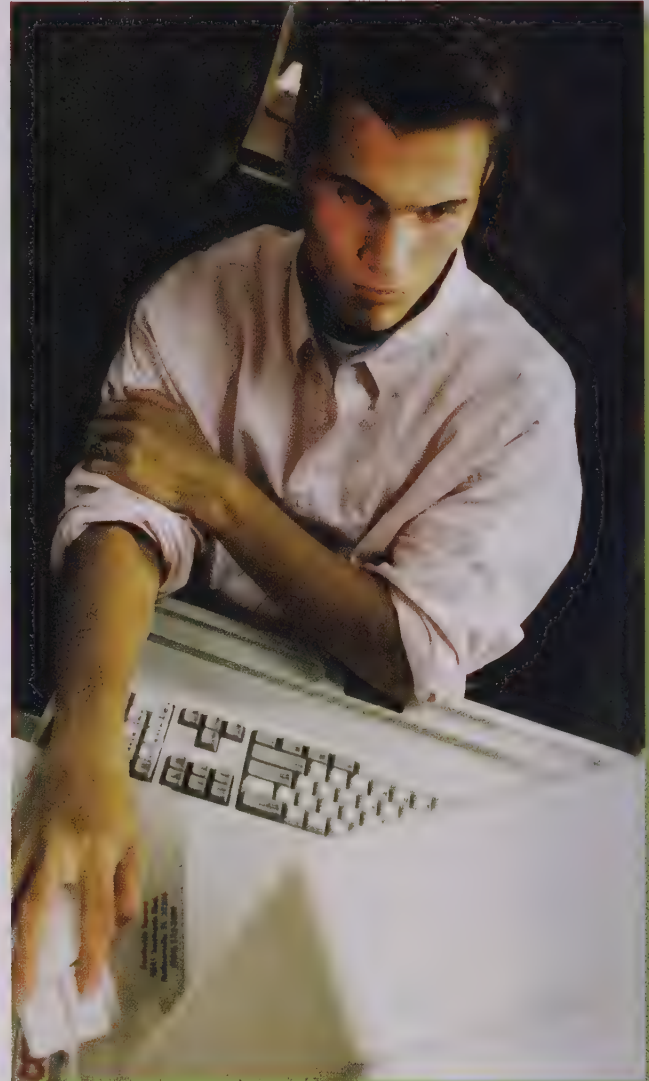
Preparing to Apply

Before you apply for a job, you need to prepare several documents, 50-9. These documents include (1) a personal fact sheet, (2) reference list, (3) application form, (4) resume, and (5) cover letter. It is often valuable to prepare a portfolio.

**50-8**

Generally, it is not a good idea just to show up at a place of business and ask for a job. However, many fast-food businesses and some retail stores have applications that you can stop by and pick up. In addition, some restaurants and neighborhood stores prefer that you stop in to inquire about jobs.

When you prepare written documents for the job search, keep in mind the sender skills you learned in Chapter 49: (1) planning and revising, (2) choosing a medium, (3) developing clarity, and (4) monitoring tone. Be sure to proofread all written documents. Whenever possible, have another person proofread also. It is very easy to make typing mistakes and not notice them yourself.

**50-9**

A computer can be very helpful while you prepare to apply for a job. You can keep track of your job leads, as well as develop your personal fact sheet, reference list, resume, and cover letters.

Personal Fact Sheet

During the process of applying for a job, you will be asked to provide a great deal of information about yourself. Most jobs require that you fill out a job application form. You will also be writing letters and developing a resume. To make these tasks easier, it is useful to compile a personal fact sheet.

Your personal fact sheet should contain any information that an employer may want about you. It is especially helpful for information that you might forget or do not currently know. Examples of such information include social security number, names and addresses of all schools attended and dates of attendance, skills, honors, activities, hobbies, and interests. It should also include detailed information about your work or volunteer experience, such as name and address of employer, dates of employment, supervisor's name, salary, and job duties.

References

Many job applications request that you list several references. Sometimes during an interview, you will be asked for a list of references. What is a reference?

A **reference** is a person who is willing to talk with employers about your job qualifications and personal qualities. When an employer is interested in hiring you, he or she will contact your references. The employer will ask your references questions about your job qualifications and work attitudes. The employer might ask your references whether they think you would be a good fit for the job for which you have applied.

It is advisable to have at least three people on your reference list. It is also important that you choose the right people. You want to choose people who know you and know something about your work qualities. In general, the following people are not recommended as references: parents, other relatives, and friends. Choose people who are over 21 and not related to you. Teachers, employers, clergy, coaches, and club advisors are good choices, 50-10.

You should always call each reference before giving his or her name to an employer. Ask your potential references if they are willing to be a reference for you. Ask them if they can honestly give you a good



50-10

Good choices for references include teachers, employers, clergy, coaches, and club advisors.

recommendation. If they say yes, ask them for an address and phone number that you can write on an application. Also ask for their job titles and places of work. Then tell them about the kind of work you are trying to get and discuss your strengths and qualifications.

Once you have the information and consent from your references, type up the list neatly on one sheet. Be sure to include your name and contact information at the top of the page. Make several copies. Bring your reference lists and your personal information sheet when you go for an interview. Many career counselors recommend that you include the following phrase at the end of your resume: References available upon request.



Reality Check

List several people who might be references for you. Explain how you know them and why they would be good references.

Job Application Form

Most jobs require that you fill out a form called a **job application**. This form has spaces for information about you, your education, and your work experience. Most of the information you need to fill out a job application will be on your personal fact sheet.

These forms usually cannot be filled out on the computer; therefore, you must hand print the answers as clearly and neatly as possible. For some sales associate jobs, you can pick up a job application at the place of work. You then can take the application home, fill it out, and then return it. For many jobs, you are given a job application to fill out when you go for an interview. Be sure to bring a pen for this purpose. Some businesses provide online application forms on their Web sites.

Resumes

Many ads request that you fax, e-mail, or mail a resume. A **resume** is a written document that lists your qualifications for a job, including education and work experience, 50-11. A resume gives the employer a quick way to learn about your qualifications. Your name, address, telephone number, and e-mail address go at the top of the page. In general, a resume has the following headings:

- **Objective.** Give a brief, general description of the job you are seeking.
- **Skills and Abilities.** This section can be used to highlight your most important skills and abilities. It is especially useful

if you have little experience or if your experience is in a different field.

- **Experience.** List your work experiences. List the most recent job first. Include the name of the company, your job title, and the time period that you worked there. Briefly describe your duties. If you have little work experience, volunteer jobs may be listed. Indicate that you were a volunteer.
- **Education.** List the schools you attended, listing the most recently attended school first. Include the name of the school, the degree or diploma you earned, and the time period of attendance. List courses that are relevant to your job objective. This list usually begins with the high school attended; elementary and middle schools are not included.
- **Activities.** List activities that indicate job-related skills. Examples include school government, clubs, career and technical student organizations, sports teams, and youth organizations such as Boy or Girl Scouts. Indicate any leadership positions or relevant projects. If you are not involved in these types of activities, you can use the heading "Hobbies" or "Interests," and then list any career-relevant hobbies or interests.
- **Awards and Honors.** List any awards or honors you have received. Include a brief description of why you got the award or honor.
- **References.** Use the phrase, "Available upon request." Make sure that you have a typed list of references available to send or bring with you to the interview.

The order of the headings depends on the person. Someone with little experience might place the education heading after job objective. Someone with a great deal of experience might place the experience heading after objective. Some people want to list their skills and abilities right after the job objective.

Sample Resume

Dario Rodriguez
222 Diamond Avenue
Anytown, CA 95200
daro@provider.com

Job Objective

Entry-level job in marketing or marketing-related area in a sports and entertainment facility

Skills and Abilities

Keyboard 80 wpm; know Microsoft Word and Excel; fluent in Spanish

Education

Anytown High School, Anytown, CA, 2004 to 2008
College preparatory program, including four years of English and Social Studies,
three years of math, and two years of science.
Elective courses include "Introduction to Business," "Marketing 1," and "Marketing 2."

Experience

RGO Building Maintenance, Inc., Anytown, CA, 2004 to 2008
Janitorial work in office building

Awards and Honors

Perfect attendance award, 2007 and 2008

Hobbies

Follow most sports, played Little League during elementary school

References Available Upon Request

50-11

The resume is used to determine whether you have the proper qualifications to be considered for the job.

Electronic Resumes

Many businesses accept electronic resumes, 50-12. An **electronic resume** is a resume written to be searched by a computer. A computer reads a resume differently from the way a person reads a resume. A computer just searches the resume for the keywords that it has been programmed to look for. The computer ignores formatting; in fact, formatting can get in the way. Therefore, an electronic resume should be written in plain text (.txt), with no bullets, italics, underlining, or bold. It is a good idea to check with the business or its Web site to find

out exactly what format they would like for an electronic resume.

A caution to keep in mind is that any personal information you send over the Internet is potentially available to everyone. Do not include personal information, such as address, telephone number, or social security number. Provide an e-mail address for responses.

Cover Letter

A **cover letter** is a letter that accompanies your resume and expresses your interest in a job, 50-13. A cover letter and resume

**50-12**

Many businesses accept electronic resumes. Remember *not* to include personal information on documents sent over the Internet. Provide an e-mail address for responses.

are usually sent in response to a specific, advertised job opening. They can also be sent in response to a job opening that you learn about from networking.

The cover letter should be only one page long. The purpose of the letter is to request an interview. Three paragraphs are usually sufficient. The first paragraph describes how you found out about the job opening and why you are interested. The second paragraph gives a brief description of your qualifications for the job. This paragraph should refer the reader to your resume for more details. In the third paragraph, request an interview. Provide information on how to reach you to arrange for the interview. If you send an electronic resume, the cover letter (without the personal information) should appear at the beginning of the e-mail that contains the resume.

If at all possible, the letter should be addressed to the specific person who is responsible for hiring. This information is often included in the want ad. If it is not, call the company and request the name and title of the person hiring for that job.

Portfolio

A **portfolio** is a collection of items that show your accomplishments. It is used to demonstrate the abilities you say you have. For example, if you were applying for an advertising job, you would show an ad that you developed. The portfolio is usually shown during an interview; it is *not* usually sent in ahead of time.

A portfolio should be about 10 to 25 pages long. Choose items that show the skills and abilities that are valuable for the job you want. Choose only your best and most impressive work. Figure 50-14 lists some ideas of what you might include. Put each item in a plastic sleeve, and then place the items in a ring binder. Each item should have a caption or a brief paragraph that explains why it is in the portfolio and what it shows about your abilities.



Reality Check

What items do you have that you could place in a portfolio? How would these items demonstrate your job-related abilities and skills?

Applying for Jobs

Once you have prepared your personal fact sheet, reference list, resume, and portfolio, you are ready to apply for jobs. Sort through the job leads you have. Discard the jobs you do not want or for which you are not qualified. Then put the leads in order from most interesting to least interesting.

To some extent, getting a job is a numbers game. The more jobs you apply for, the greater the chance of getting at least one job offer. There are several ways to apply for a job:

Sample Cover Letter

Dario Rodriguez
222 Diamond Avenue
Anytown, CA 95200
daro@provider.com

July 20, 2008

LaVerne Smith
Director, Human Resources
Sports & Entertainment Center
One Main Street
Anytown, CA 95200

Dear Ms. Smith:

I am interested in the position of administrative assistant in the marketing department, advertised in the Sunday, July 20, 2008 issue of the Anytown Tribune. I am interested in a career in marketing. I am also an avid sports fan and have seen many games at the Sports & Entertainment Center.

I have recently graduated high school, where I took the college preparatory program plus electives in marketing. I excelled at English and math and am fluent in Spanish. Please see my resume for more details. I am enthusiastic, hardworking, and a fast learner.

I would appreciate the opportunity to discuss this position with you. You can reach me at xxx-xxx-xxxx, which is a cell phone with voice mail. Thanks for your time and interest.

Sincerely,



Dario Rodriguez

Encl: Resume

50-13

A cover letter should always accompany your resume.

- **Visit the Business.** Get an application, fill it out, and give it to the appropriate person.
- **Answer a Want Ad.** Send a cover letter and resume to the appropriate person. Cover letters should be customized for each ad that you answer.
- **Send a Letter of Inquiry and Resume to the Business.** Even if the company has not advertised a job opening, you

can send a letter. Customize the letter for each business. This letter should also ask for an interview.

Once you have applied for a job, you must wait for a response. If you do not hear back within a week or two, call the company to find out whether the job has been filled. If the job has not yet been filled, express your interest in the job and your desire for an interview. Ask if there is any additional information they need from you.

Examples of Items That Can Be Placed in a Portfolio

School Assignments

Advertising project
 Paper with positive comments from teacher
 Paper or test showing foreign language proficiency
 Transcript with grades
 Writing sample

Academic Recognition

Awards
 Graduation Program if you received special recognition
 Honors

Activities

Certificate of skill, such as Water Safety Instructor or CPR
 Letter or other document showing a special contribution to an organization such as school government, CTSO, youth organization
 Items that show leadership, such as a newspaper article about your CTSO
 Photos of participation in activities, such as competition, service activity, CTSO

Work

Letter of recommendation from an employer
 Skill certificates
 Special recognition from a supervisor or customer
 Work samples

important accomplishment. It means that the employer is impressed by your resume or application and wants to get to know you better.

The interview is an opportunity for the job applicant and the employer to get to know each other. The job applicant wants to impress the employer and learn about the job. The employer wants to learn about the job applicant and decide whether to offer the position, 50-15. Usually, the employer interviews several candidates for the same job. The purpose of the interview for the employer is to decide which candidate will be the best for the job.



Reality Check

Have you ever been interviewed? Were you nervous? If you have not been interviewed, do you think you would be nervous? What could you do to make yourself less nervous?

First Impressions Count

How quickly do people form an opinion of a new person they meet? Studies show that an opinion is often formed in 90 seconds or less! Once that opinion is formed, it is



50-15

During an interview, the employer is trying to find out whether you are qualified for the job and how you would fit in with the rest of the team.

50-14

Make sure your portfolio is neat and well organized.

Interviewing

It is rare for someone to get a job without an interview. An *interview* is a formal meeting between two or more people, during which questions are asked of one person. Being invited to a company for an interview is an

often difficult to change it. Therefore, when you interview, you want to make an excellent first impression.

You may think that it is what is inside that counts. However, it is only human nature to be influenced by appearance. Think of the birthday packages described at the beginning of this chapter. Look back at Figure 50-1. If you want employers to look further into your qualifications, you must impress them at your first meeting. Appropriate appearance and behavior are important.

Your grooming and dress for an interview should be clean, neat, and professional. A business suit always makes a good impression, even if you will be wearing a uniform on the job. If you know the business well, you can dress for the interview in the same style as the employees do. However, if you are not sure, conservative dress is better. Keep in mind that you are dressing to fit the job that you want. Figure 50-16 provides general guidelines for dressing for an interview.

The way you greet the interviewer will make a strong impression. Stand tall. Smile, maintain eye contact, and give the interviewer a firm handshake. Use the interviewer's name in the greeting. For example, "Hello, Ms. Reed. My name is Arif Iqbal. I am here to interview for the management trainee position."



Reality Check

Look around the room. Who is currently dressed in a way appropriate for an interview? For those not dressed for an interview, give recommendations.

Preparing for the Interview

If you are well prepared for the interview, it is likely to go smoothly; and you will make a good impression. You can prepare yourself in the following areas:

Guidelines for Grooming and Clothing

Grooming

- Fingernails clean and trimmed
- Use deodorant or antiperspirant
- Wash hair and wear it in a neat style, check for dandruff
- If you use cologne, aftershave, or perfume, use it lightly
- Avoid tattoos on visible body parts
- Men—Shave or trim facial hair in a neat style
- Women—Use makeup lightly; natural colors for lipstick and nail polish

Clothing

- Clean, pressed, no holes or rips
- Dressy, no jeans
- Women—Dress, skirt or pants with blouse, suit
- Men—Dress pants and shirt, suit and tie, belt
- Shoes—Conservative, polished and shined, avoid athletic shoes or sandals
- Jewelry—Minimal, avoid body piercings
- Sunglasses and hats—Remove when you arrive

50-16

Your grooming is one of the first things an interviewer notices.

- **Arrangements.** Make sure you know where the interview is and how to get there. Find out how long it will take to get there. If you are unfamiliar with the location, make a trial run before the interview. Know the name and title of the person who will interview you. Call the day before to confirm the time and place.
- **Introduction.** Prepare a few sentences of introduction. Practice speaking slowly and clearly. Practice your handshake, 50-17. Use your right hand to grasp the



50-17

Practice your handshake. Use your right hand to grasp the other person's hand firmly. End the handshake after three seconds.

other person's hand firmly. End the handshake after three seconds.

■ **Answering Questions.** The interviewer will ask you questions to learn about you and your qualifications for the job. The interviewer will be trying to determine whether you are the right person for the job. The interviewer will also be trying to determine whether you will fit in with the team that is already in place. Figure 50-18 presents some typical interview questions. Practice your answers ahead of time. Also practice showing your portfolio as part of your answers.

■ **Asking Questions.** The interview is also a time for you to learn about the job. You need to learn enough about the job and the work environment to determine whether you would be happy working there. In addition, asking questions will show that you are seriously interested in the company and have thought about the job. Prepare some questions ahead of time.

Illegal Questions

When you apply for a job, you have certain legal rights that are protected by federal law. These laws protect you from

Five Commonly Asked Interview Questions

- **Tell me about yourself.** Interviewers often ask this question first. It gives you the opportunity to focus on what you want the interviewer to know about you. Do not begin with your birth and give a long dissertation. Rather, concentrate on those facts about yourself that directly relate to the job. Express enthusiasm for the work and self-confidence.
- **What can you tell us about our company?** Interviewers ask this to determine how much they need to tell you about the company. They will be impressed if you already know at least the basics: what the company's products are, how long it has been in business, and the annual sales. (Sales information for some businesses may not be available.)
- **What are your strengths and weaknesses?** Your answer should highlight your main strengths and talents. However, you do not want to present anything negative when you talk about your weaknesses. Take a weakness and turn it into a strength. For example, "I am a workaholic, and sometimes I have a hard time leaving a project at the end of the day."
- **Whom do you admire most?** The purpose of this question is to learn something about your values and what is important to you. Choose a person who possesses qualities that are important to you and lead to success. Prepare an explanation of why you admire this person.
- **Why should I hire YOU?** The interviewer is trying to determine how you see yourself working for the company. Use the marketing concept to prepare an answer that shows how you will meet the employer's needs and contribute to the success of the company. Focus on the unique skills, abilities, and experiences you bring to the job.

50-18

It is a good idea to prepare your answers to these questions ahead of time.

discrimination during the hiring process. It is illegal for an employer to discriminate based on race, color, religion, national origin, sex, age, and disability.

To protect your rights, there are certain questions that interviewers may not ask during an interview or on a job application. Figure 50-19 provides examples of illegal questions.

Some job interviewers do not know the law very well and do not realize that certain questions are illegal. Your response to such a question might be as follows: "Please explain how that relates to the job" or "I would rather not answer personal questions."

Handling the Interview

The following guidelines will contribute to successful interviews:

- **Arrive a Few Minutes Early.** Allow enough time for travel and parking.
- **Do Not Bring Anyone with You to the Interview.** If someone drove you, have him or her wait for you in the car or a nearby shop.
- **Do Not Chew Gum or Smoke.**
- **Speak Clearly.** Avoid mumbling. Use Standard English.
- **Bring Your Information.** Bring your personal fact sheet, two copies of your resume, two copies of your references, paper, pen (blue or black ink), and your portfolio. Bring any other papers the

Questions That Are Illegal To Ask on a Job Application or During a Job Interview

Subject	Illegal Questions
Age	How old are you? What is your birth date? <u>Exception:</u> It is legal for an employer to ask you to prove that you are over 18. If you are younger than 18, the employer can ask your birth date and request verification. Also, some products have age requirements, such as 21 to sell alcohol. It is legal to ask to verify your age in these situations.
Arrest	Have you ever been arrested? <u>Exception:</u> The employer can ask if you have ever been convicted of a crime.
Disabilities	Do you have any disabilities? What is the nature of your disability? <u>Exception:</u> The employer can ask if you are capable of doing the job you applied for. For example, if the job requires you to lift and move 10-pound bags of cement, the employer can ask you whether you can do so. The employer can even ask that you demonstrate that ability.
Health History	Provide a history of your health. Do you have a certain disease?
Marital Status/Sex	Are you married? Are you divorced, widowed, single? Do you prefer to be addressed as Miss, Ms., or Mrs.? Indicate (on a form) male or female.

(continued)

50-19

Some interviewers do not know the laws about illegal questions. You should be prepared with a polite answer if you are asked one of these questions.

Questions That Are Illegal To Ask on a Job Application or During a Job Interview (continued)

Subject	Illegal Questions
National Origin	What nationality are you? Your parents? What nationality is your spouse? What is your ancestry? What ethnic group do you belong to? What language do you speak at home? What is your native language? <u>Exception:</u> The employer can ask if you are a U.S. citizen. If you are not a citizen, the employer can ask if you are legally eligible to work in the United States. The employer will have you fill out a form from the U.S. Department of Justice (I-9) to verify that you are eligible to work in the United States. The employer can also ask whether you speak a specific language that relates to the job you are applying for.
Organizations/Clubs	What organizations do you belong to? What clubs do you belong to? <u>Exception:</u> You may volunteer this information, especially if your activities in the organization or club have given you work-related skills. For example, you might want to describe your activities in DECA.
Personal/Family	Where were you born? Your parents? Your spouse? Are you a naturalized citizen? How many children do you have? Do you plan to have children? When do you plan to have children? What child care arrangements do you have? Do you have relatives who live nearby?
Photographs	Please attach a current photograph to your application.
Race	What is the color of your skin, hair, eyes? What is your race?
Religion	What is your religion? What church do you attend? What religious holidays do you observe? Who is your religious leader? <u>Exception:</u> The employer can ask if there are certain days or times when you cannot work.

interviewer may have requested, such as a work permit. You should have something in which to carry your loose papers. You do not have to buy an expensive business case. A nice folder with a closure from an office supply store would be sufficient.



Reality Check

Have you ever gone on a job interview? What job were you applying for? How did the interview go? Did you get the job? What would you have done differently?

Following Up

When the interview is over, the interviewer will give you some cues. For example, the interviewer might get up and say, "Thank you for coming in. We plan to make a decision by the end of the week." You should thank the interviewer for his or her time and interest. Shake hands, then leave.

After an interview, you should always write a thank-you letter, 50-20. The letter can be brief. It can be handwritten or typed. Thank the interviewer for his or her time and interest. If you are interested in the job, say a few words indicating your interest and your strongest qualifications for the job.

Sample Thank-You Letter

Dario Rodriguez
222 Diamond Avenue
Anytown, CA 95200
daro@provider.com

July 30, 2008

LaVerne Smith
Director, Human Resources
Sports & Entertainment Center
One Main Street
Anytown, CA 95200

Dear Ms. Smith:

Thank you for meeting with me today. I enjoyed speaking with you and learning more about the job as administrative assistant in the marketing department. My strong communication and organizational skills, plus the courses in marketing, make me an excellent candidate for this position.

Again, thank you for interviewing me. Please feel free to contact me if you need any further information.

Sincerely,

Dario Rodriguez
Dario Rodriguez

Make notes on the interview in your job leads file. Analyze your performance. What did you do well? What do you need to improve? Also note the result of the interview. When the interviewer contacts you, make a note of what he or she says, and whether you got the job.

It will probably take a few days to a few weeks before the interviewer decides whom to hire. The interviewer must interview all applicants. The employer will probably also check your references. They may also call your schools to verify that you graduated and may also verify your grades.

If you have not heard from the employer after a week or two, call the employer, 50-21. Ask for the person who interviewed you. Give your name and the date of your interview. Ask if a decision has been made on the job. If a decision has not been made, express your interest in the job. Ask if the interviewer needs any more information from you. Ask when the decision will be made or when you may call again. Respond to any request immediately.

**50-21**

If you have not heard from the employer after a week or two, call the employer.

CHAPTER 50 REVIEW

Remember This

- A job search is similar to a marketing campaign with you as the product.
- The job search process consists of (1) finding leads, (2) applying for jobs, (3) interviewing, and (4) following up.
- Job leads can be found through want ads, the Internet, networking, and direct employer contact.
- Documents used in a job search include (1) letter of inquiry, (2) personal fact sheet, (3) reference list, (4) job application, (5) resume, and (6) cover letter.
- Areas of preparation for an interview include (1) arrangements, (2) introduction, (3) answering questions, and (4) asking questions.
- Following up after an interview includes a thank-you letter, one or more phone calls, and a self-evaluation.

Review Concepts

1. How can the marketing concept be used during a job search?
2. List the four steps of the job search process.
3. List four ways to find job leads.
4. What is the major weakness of newspaper and Internet want ads?
5. How can networking help you find a job?
6. List five documents that you will need to prepare when you apply for a job.
7. Why is it recommended to prepare a personal fact sheet?
8. What is the purpose of a resume?

9. List three ways to apply for a job.
10. What is the most important part of the interview?
11. How would you prepare for an interview?
12. What should you do after an interview?

Think Critically

1. Why is it wise to keep track of leads?
2. Why should you *not* use family or friends as references?
3. What kinds of experience, activities, awards, or honors could you list on a resume? If you do not have much to list, what could you do to get something or something better to list?
4. How is an electronic resume different from a resume that you would hand to an employer?
5. You have been asked to give suggestions to underclassmen on how to conduct themselves during an interview. Give some tips on the do's and don'ts of interviewing.
6. How can you tell that the interview is over?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out who does the hiring. Does this business have a human resources department? How do they recruit new workers? What do they look for in a resume?

CHAPTER 50 REVIEW

2. Choose two adults you know who have jobs. How did they find out about the opening for their current jobs? How did they apply? Did they send a resume and cover letter? What happened at the interview?
3. Fast-food restaurants and retail stores in malls often have job applications on hand. Visit two of these businesses and get copies of their application forms. Fill out the forms. How are the two forms similar and different?

Explore Careers

1. Read the article "Employment Services" in the *Occupational Outlook Handbook*, available in libraries or online at www.bls.gov/oco. What do the numbers in the upper right-hand corner stand for? Describe the three segments in this industry. What kinds of jobs are available in this industry?
2. Often the first person a job seeker meets at a company is a human resources worker. Read the article about human resources in the *Occupational Outlook Handbook*. List the careers available in this area. Visit the Web site of the Society for Human Resources Management (www.shrm.org). How can membership in this organization help you in your human resources career? Use the HR careers link on www.shrm.org, your local newspaper, or a job search Web site, such as www.ajb.dni.us (America's Job Bank) or www.monster.com, to find openings for a human resources or employment manager. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.
3. Counselors provide a variety of help with personal and education issues, including career decisions. Read the article "Counselors" in the *Occupational Outlook Handbook*. List the different types of counselors and describe what they do. Visit the Web site of the American Counseling Association (www.counseling.org). How can this organization help you in a career as a counselor? Search your local newspaper or a job search Web site for jobs as a career counselor or other type of counselor. Choose a job that appeals to you. What are the qualifications for the job? What does a person in the job do? Would you like this job? Explain why or why not.

Connect to the Internet

1. Use a search engine and the keywords "job search" to find Web sites that help people find job leads. List three, visit them, and print their home pages. Which one is the easiest to use? Which one is most helpful? Use the job that you are most interested in to perform a job search on all three. Which one provides the most job leads?
2. Visit three job search Web sites, either the three mentioned in the text or the ones you found in item #1 above. What kind of information do these sites provide on the process of job hunting and resume writing? List additional useful information that you learn from these sites.

Marketing Terms

interpersonal skills

team

leadership

leader

collaboration

conflict

parliamentary procedure

agenda

attitude

optimism

initiative

procrastination

work habits

giving notice

role

After studying this chapter,
you will be able to

- identify effective interpersonal skills.
- identify effective team skills.
- describe an effective team member.
- describe an effective team.
- list five areas in which to develop self-management skills.
- describe four ways to advance in your career.

Why do you think people get fired from their jobs? Here are two of the most common reasons:

- inability to get along with coworkers, supervisors, or customers
- poor self-management skills, for example, being late

There are many things you can do not only to avoid being fired, but also to ensure your career success. Five areas in which you can improve your skills are (1) interpersonal relations, (2) teams, (3) self-management, (4) advancement, and (5) balancing multiple roles.

Interpersonal Skills

Interpersonal skills are the group of skills that enable you to interact with others in a positive way. Good interpersonal skills enable you to get along with your coworkers, 51-1. These skills also help you interact effectively with customers and vendors. Good interpersonal skills contribute to success in your personal relationships as well.

What kinds of situations at work require good interpersonal skills? One of the most obvious is sales. In sales, you are constantly interacting with customers. However, many other situations at work require interpersonal skills. Here are several examples:

- Your supervisor tells you that you have made a mistake. You need to be able to accept criticism and learn from it.
- You are given the responsibility of training a new sales associate. You need to be able to clearly explain the job requirements and be patient in answering questions.
- You are responsible for negotiating the price of goods for your store. You must be able to project your trustworthiness and know how to negotiate fairly.



51-1

Good interpersonal skills are critical to success in work and life.

In each of these situations, the quality of your interpersonal skills will determine your success.

Communication skills are at the core of interpersonal skills, 51-2. Sending clear messages and being an active listener are the basis of good interpersonal skills. In addition to good communication skills, good interpersonal skills involve the following skills and qualities:

- **Empathy.** Empathy is the ability to see things from another person's point of view. As a result, you are better able to



51-2

Communication occurs in a wide variety of work situations, from informal conversations with colleagues, to training, to formal presentations.

understand why people behave the way they do. With this better understanding, you are able to decide the best way to respond to people.

- **Respect.** Showing respect and courtesy to others makes them feel important and valued. It also encourages them to show you respect and courtesy. Respect is especially important when you disagree with someone. An important interpersonal skill is learning how to get along with people whose ideas are different from yours.
- **Open-Mindedness.** Be willing to consider a different point of view. It is impossible to be right all the time. Everyone makes mistakes. Learn how to accept criticism without taking offense. Learn how to give criticism in a tactful manner so that you do not hurt the other person's feelings.
- **Humor.** A sense of humor is the ability to see the funny side of things. It is *not* making fun of others. A sense of humor enables people to laugh together. Humor can be used to break tension and make communication easier.
- **Positive Attitude.** A positive attitude enables you to see the good side of situations and other people. A positive attitude helps you be optimistic, cheerful, and pleasant to be around.
- **Trustworthiness.** Good interpersonal relations develop when people trust each other. People see you as trustworthy when you keep your promises and deal fairly with others. Honesty is part of trustworthiness.
- **Dependability.** Dependable people can be relied upon to do what they say they will do. They follow through on their responsibilities. When they take on a task, they complete it in a timely fashion.



Reality Check

Describe a situation in which you needed good interpersonal skills. Which interpersonal skills did you use? Which ones do you need to work on?

Teams

Teams have become a very important aspect of the workplace. A **team** consists of two or more people who work together to achieve a common goal, 51-3. Work teams have much in common with sports teams. In both situations, all members of the team must work together in order to achieve success.

Teams can be beneficial to business in the following ways:

- More people are involved in the decision making, and therefore the decisions are more likely to be implemented.
- Team members continually learn from each other.



Courtesy of Toyota Motor Corporation

51-3

Many processes in the business world are complex. A team is a group of people who work together to achieve a common goal. This team is working on a V8 engine at Toyota Motor Manufacturing, Alabama.

- Discussions among team members often generate new ideas.
- A group of people in a team has more knowledge and resources than an individual.
- Teams are more likely to find and correct mistakes.
- Effective teams are usually more productive than individuals.

Types of Teams

There are two basic types of teams: the functional team and the cross-functional team, 51-4. In the *functional team*, each member has basically the same skills and qualifications. For example, sales teams are usually functional teams; all the members of the team are salespeople. In a *cross-functional team*, team members have different skills. For example, a product development team might be cross-functional. This team might be composed of a marketer, a design expert,

an engineer, the production manager, and a salesperson.



Reality Check

Describe a team of which you have been a member. Was it a functional team or a cross-functional team? Explain your answer.

Team Skills

Team members need excellent communication and interpersonal skills. In addition, there are four other skill areas that are particularly valuable in a team: (1) leadership, (2) collaboration, (3) conflict resolution, and (4) effective meetings. Career and technical student organizations (CTSO), such as DECA—An Association of Marketing Students, Future Business Leaders of America (FBLA), Business Professionals of America (BPA), and SkillsUSA, provide

Types of Teams

Functional Team

All members have same skills
Example: Sales Team



Cross-Functional Team

Members have different skills
Example: Product Development Team



many opportunities for working in teams and learning team skills, 51-5.

Leadership

Leadership is the ability of a person to guide others to a goal. A person who guides others to a goal is called a **leader**. Leaders influence others and inspire excellence. Leadership skills are necessary for success in the workplace. Leadership skills are also valuable in other areas of life, such as school, government, and civic organizations.

Some people are natural leaders, but most people can develop traits that make a leader successful, 51-6. The following traits are often identified with successful leaders: self-confidence, good communication skills, dependability, enthusiasm, flexibility, ability to set goals, ability to follow through, good problem-solver, and ability to inspire others.

Collaboration

Collaboration is working with others to achieve a common goal. Successful collaboration includes the ability to cooperate with others, to share ideas and responsibilities, and to compromise when



Photo courtesy of DECA—An Association of Marketing Students

51-5

These students are gaining experience working as a team and interacting with business professionals through DECA—An Association of Marketing Students.



51-6

Fambrough & Associates, courtesy of SkillsUSA

People can learn leadership skills through experience and training. Many career and technical student organizations offer such opportunities.

necessary. When people compromise, each gives up a little of what he or she thinks is important so that the group can come to a decision or solve a problem.

Conflict Resolution

When people work together, there are likely to be disagreements. Successful teams manage disagreements so that they do not develop into conflicts. **Conflict** is a situation in which disagreements lead to hostile behavior, such as shouting or fighting.

Disagreements can be useful. Disagreements about a solution to a problem often lead to a better solution. In these situations, all sides of the argument need to be presented and thoroughly discussed.

Disagreements can create problems when they develop into conflict. The team leader, manager, or work supervisor has a special responsibility to manage disagreements and resolve conflicts, 51-7. Sometimes conflicts are obvious. Other times, a team member will tell the leader about a conflict. The following steps are helpful in resolving conflicts:



51-7

Part of the responsibility of the team leader, manager, or supervisor is to manage disagreements and resolve conflicts.

- **Gather the Facts.** Speak to people in private. Do not jump to conclusions.
- **Hold a Meeting.** Include everyone who is involved with the conflict. Make sure that each person understands that he or she is responsible for the problem and its solution.
- **Brainstorm Solutions.** Make sure you get input from everyone involved.
- **Develop a Workable Solution.** Focus on the behaviors that can be changed. What a person thinks is not relevant; behavior (including speech) is relevant.
- **Gain Agreement.** When a solution has been agreed upon, make sure everyone understands and accepts it. This agreement may be either verbal or written or both.
- **Monitor the Situation.** Schedule a follow-up meeting to evaluate progress. If conflict continues, repeat the steps.

Effective Meetings

Meetings are a fact of life in the business world. Meetings are also important in government and civic organizations. If

you are a member of student government, a club, or a career and technical student organization, you have probably attended meetings. The general purpose of meetings is to make decisions or solve problems. A meeting is required because more than one person is needed to make the decision or solve the problem.

Many meetings in the workplace are informal. A group of workers gets together to discuss a problem or to coordinate their work. For example, some departments have weekly meetings. At these meetings, each person reports on the work that he or she has done during the preceding week. Any problems or projects that need input from other department members are discussed.

Sometimes, meetings are more formal. Formal meetings are usually run according to parliamentary procedure, 51-8.

Parliamentary procedure is a process for holding a meeting so that the meeting is orderly and democratic. Parliamentary procedure is based on the guidelines in *Robert's Rules of Order*. The central process of parliamentary procedure is proposing, discussing, and voting on motions. A *motion* is a recommendation for action to be taken by the group.

A key to accomplishing the goals of a meeting is to have a good meeting leader. A person who runs formal meetings must be familiar with parliamentary procedure. A good meeting leader knows how to keep the group focused on the goals of the meeting. A tool for keeping a meeting focused is an agenda. An **agenda** is the list of topics to be discussed, decisions to be made, or other goals for a meeting.

A good meeting leader also knows how to move the discussion along without insulting anyone. For example, often there is one person at a meeting who wants to do all the talking. A skilled meeting leader will acknowledge that person, but also enable other people to talk.



51-8

Formal meetings usually use parliamentary procedure, based on *Robert's Rules of Order*.



Photo courtesy of DECA—An Association of Marketing Students

51-9

Students can learn how to be effective team members through many high school activities, including sports, clubs, and career and technical student organizations.

feelings. Effective team members listen to and are open to the ideas and feelings of other team members. They share information and provide help to other team members. They are reliable.

Effective team members have the ability to cooperate with each other. *Cooperation* is the willingness to do what it takes to get the job done. A cooperative worker follows instructions and asks questions when he or she does not understand what to do.

Effective team members also have the ability to work with a wide variety of people. Someone who has the ability to work with others is pleasant, agreeable, and does not create conflict or angry situations. Such a person understands and respects diversity. He or she can work with people from all kinds of backgrounds and points of view. He or she also knows how to resolve differences of opinion or conflict in a positive way.

Effective team members are also committed to the success of the team and its goals. They feel an obligation to do their part. Teamwork on the job is much like being part of a basketball team or a drill team.



Reality Check

Describe a meeting that you have attended. Give the situation, the purpose, and who attended the meeting. How was the meeting run? Were the goals accomplished? What would have made the meeting more effective?

Effective Teams

An *effective team* is a team that accomplishes its goals. The first requirement of an effective team is to have effective team members, 51-9. Effective team members participate fully in team meetings and team tasks. They contribute their ideas and

The success of the whole team depends on each individual's attendance, punctuality, good attitude, and skills. If one person does not perform well on a team, the entire team will suffer. The same is true of teamwork on the job. Effective teams have the following qualities:

- **Share Leadership.** Team members take turns leading the team.
- **Rotate Roles.** Teams usually need people in the following roles: leader, encourager, taskmaster, critic, and recorder. Successful teams rotate the roles among the team members.
- **Focus on the Goal.** Successful teams always keep their goals in mind. They work to help each other accomplish the goals and reduce distractions.
- **Work for the Common Good.** Team members agree on their goal and help each other achieve it. The team also monitors its process and performance and works to improve them.
- **Are Very Productive.** Effective teams produce more work and meet their goals faster than ineffective teams.



Reality Check

Describe a team of which you have been a member. Was the team effective? Explain your answer. What might have made the team more effective?

Self-Management Skills

Another key to success in your career and life is learning self-management skills. Self-management skills are the skills that help you take care of yourself and meet your obligations, 51-10. Self-management skills can be organized into the following



51-10

Self-management skills help you take care of yourself and meet your obligations.

categories: (1) health, (2) grooming, (3) attitude, (4) organizational skills, and (5) work habits.

Health

Good health is the foundation of everything you do in your life. However, good health is not automatic. You should not forget your health while you are trying to achieve career success. It is difficult to concentrate or do a good job when you are not feeling your best. Here are five basic rules that will help you stay healthy:

- **Get Adequate Sleep.** Most adults need 7 to 8 hours of sleep a night. Teens need about 9 hours. Some people need more or less. A regular schedule of going to bed and getting up at the same time will help you feel your best.
- **Exercise Regularly.** Regular exercise keeps your body in good condition. Physical activity can reduce stress and increase stamina. Participating in a sport or exercise class can make physical activity more fun, 51-11.
- **Eat a Balanced Diet.** You are what you eat. If you eat a diet heavy in fats and sugars, you are likely to gain weight and feel sluggish. Eat a variety of foods. Eat a good breakfast. Reduce your intake of fats and sugars. Eat more fruits and vegetables. Drink eight or more glasses of water a day.
- **Avoid Health Risks.** The main risks to health in America are being overweight, tobacco use, and drug abuse. Being overweight has become one of the major risks to health. If you eat a balanced diet, exercise, and get enough rest, you should be able to maintain a healthy weight. Although tobacco is legal for those over 18 (or 21 in some states), it has been proved to cause serious health problems, such as cancer and heart disease. Many

**51-11**

Exercise keeps your body in good condition, reduces stress, and increases stamina.

workplaces do not allow employees to smoke on the premises. Alcohol is a legal drug for people over 21; however, alcohol use can cause accidents and illness. All workplaces prohibit employees from using alcohol while on the job. The use of illegal drugs is also prohibited at work. Many companies require new employees to take a drug test.

- **Maintain Mental Health.** Good mental health is also important to perform effectively on the job. One of the risks to mental health is stress. *Stress* is a feeling of tension, pressure, or strain that can result from changes in your life or having too much to do. When you feel stressed, your body often reacts. Prolonged periods of stress can contribute to a number of diseases, such as heart disease and high blood pressure. There are many ways you can reduce stress. For example, take breaks, be organized, and keep a positive attitude. Exercise also helps reduce stress.



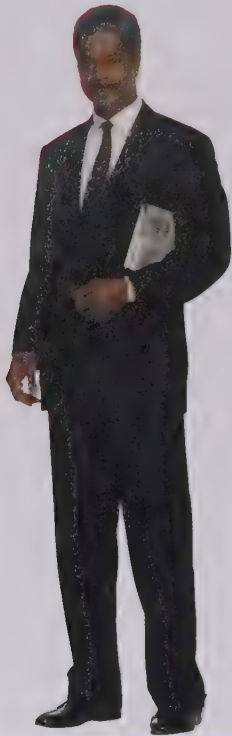
Reality Check

Describe the ways you currently manage your health. What could you improve?

Grooming

Appearances do count. You may have taken special care to look good at your interview, but making a good appearance is important throughout your working life. Your appearance is the first thing that customers, vendors, coworkers, and supervisors see, 51-12. Once you have a job, make sure you understand the dress code and follow it.

Personal hygiene is part of grooming and is especially important on the job. *Personal hygiene* refers to keeping your body and clothing clean. Body odor will not only



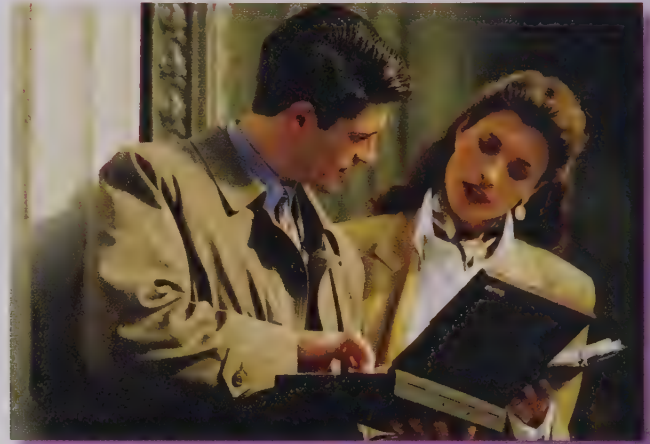
51-12

Having a good appearance is important throughout your working life. Your appearance is the first thing that customers, vendors, coworkers, and supervisors see.

offend your employer and coworkers, but it might also turn away potential customers. Always take a bath or shower daily. Use deodorant or antiperspirant. Use only a small amount of light perfume or aftershave lotion. A strong smell of perfume or aftershave can offend customers and coworkers. Some might even be allergic to certain scents.

Fresh breath is also important, especially when dealing directly with customers, 51-13. Fresh breath is achieved by proper brushing of your teeth. Keep mouthwash or breath mints handy for freshening breath during the day. Regular visits to the dentist can prevent or treat problems that lead to bad breath.

Having well-groomed hair and nails will help you keep a sharp, professional appearance. Hair should be trimmed on a regular basis. This will make it easier to style.



51-13

Fresh breath is important, especially when you are working with customers.

Nails should be trimmed to a professional-looking length. Nail polish, if used, should be clear or natural looking. For women, makeup should be moderate and natural looking.

Attitude

Attitude is the way you look at the world and the way you respond to events that happen. Employers want to hire people with a positive attitude. Customers and coworkers want to be around people with a positive attitude. Components of a positive attitude include the following:

- **Optimism.** **Optimism** is the expectation that things will turn out well.
- **Friendliness.** A friendly attitude consists of a positive attitude toward yourself and others, 51-14. Friendly people are generally pleasant, cheerful, and optimistic. They like other people and show it. They are polite and helpful. Friendly people respect others and are concerned about their welfare. A smile says that you have a friendly attitude. A smile should not be forced. It should come from your positive attitude toward life.

**51-14**

Friendliness is a positive quality that many employers want in their workers. Friendliness also contributes to success at work and in life.

- **Self-Motivation.** Self-motivation is the inner urge to achieve your goals. Self-motivation includes a sense of enthusiasm about your work and your company. Self-motivated people have initiative. **Initiative** is the ability to get a job done on your own, without someone constantly reminding you. People with initiative often come up with new ideas and ways to solve problems, 51-15. Self-motivated people often volunteer for the challenging assignments.
- **Teamwork.** Your personal contribution to the team is essential to your personal

success on the job. An attitude of teamwork includes cooperation, the ability to work with others, and commitment to the team and its members.

- **Adaptability.** Adaptability is the ability to make changes to match new situations. The workplace is constantly changing. Every day brings new challenges and problems to solve. An adaptable person can go with the flow. He or she adjusts to changes and new conditions smoothly and with a positive attitude.

**51-15**

People who have self-motivation and initiative often lead businesses to success.



Reality Check

What kind of attitude do you have? Do you have any of the components of a positive attitude? If your attitude is negative, what could you do to make it positive?

Organizational Skills

Being organized is essential for business and personal success. To be organized means that you get tasks done when they are due and you find things easily when they are needed. Organizational skills are the skills that enable you to keep your papers, tools, and other items in order. A major part of organizational skills are time management skills. Time management skills help you make the best use of your time and help you get to places on time. If your papers and tools are in order, you will not waste time trying to find them.

Handling Papers

A major challenge to being organized at work and at home is handling paper, such as bills, letters, magazines, and newspapers. A key to being organized is to handle each piece of paper only once. When a piece of mail crosses your desk, do one of three things: (1) act on it, (2) file it, or (3) toss (or recycle) it. Create a system of file folders, so that papers relating to the same subject can be filed together. Label the folders so that you can easily find the papers on each subject, 51-16.

Calendars and To-Do Lists

The keys to efficient time management are a calendar and a to-do list. You can use either paper and pencil or an electronic organizer, such as a personal digital assistant. There are also computer programs that can help you organize your tasks and keep



51-16

Despite the use of computers, businesses have a large number of papers to keep track of. An organized and efficient filing system is essential.

your calendar and to-do lists. Personal digital assistants and computers often have alarms that can be set to remind you of appointments, 51-17.

On your calendar, list all your appointments and obligations. It is usually more efficient to keep personal and business items on the same calendar. It will help you avoid conflicts between personal and business obligations.

There are many efficient ways to keep a to-do list. Many people find it helpful to have a master to-do list and a daily to-do list. The

**51-17**

Whether you use a paper and pen system or an electronic personal digital assistant, you must have a system for keeping track of your appointments and obligations.

master to-do list is where you write down all the things you need to do. Everything that you need to do should be written down in this list. It might take two or more notebook pages.

At the end of the day or at the beginning of the new day, read through your master list. Which are the most important items to be done that day? Which ones can you complete in a day? Which small items could you fit in during down times? Make a daily to-do list. List all the activities that you intend to accomplish that day. As you accomplish each activity, cross it off both your daily list and your master list.

Avoid Procrastination

Procrastination is postponing doing something that should be done now. As someone once said, "Procrastination is the thief of time." Most people procrastinate at some time. Procrastination can become a serious barrier to work success when it results in missed deadlines or substandard work, 51-18. Procrastination can also increase the level of anxiety and stress at work. The longer you put off a task, the more anxious and worried you are likely to become.

The best cure for procrastination is to start the project as soon as possible.



Work Habits

Work habits are the basic, routine actions that you carry out every day at work, 51-19. They provide the foundation for success at work. Good work habits help you be efficient and productive. Good work habits are similar to good study habits. Your organizational skills will help you develop good work habits. The following are some good work habits:

- Be on time.
- Be at work every day.
- Call your supervisor immediately if you become ill and must miss work.
- Complete all work in a timely fashion.
- Keep your work area neat and organized.
- Be accurate.
- Report mistakes or problems to your supervisor immediately.
- Do not make personal calls from work.

51-18

Procrastination can get you in trouble if it leads you to miss deadlines or submit sub-standard work.

If the project is large, break it down into smaller steps. Create a plan and timeline for completing each smaller step. Use your to-do list and your calendar to schedule time for working on the task. If part of the reason for your procrastination is fear that you do not have the skills to perform the task, consult with a coworker or supervisor. Get the help you need to perform the task.



Reality Check

Would you consider your organizational skills to be excellent, good, fair, or poor? Give evidence. What would you do to improve your organizational skills?



51-19

Good work habits are one of the keys to success at work.



Reality Check

Explain how each of the work habits on page 724 can be applied to study habits. Describe how the quality of a person's study habits could predict the quality of that person's work habits.

Advancement Skills

Some people are very happy with their jobs. They find their work challenging and rewarding. Others want to advance. Some people want to advance because they have become bored with their jobs; they want to learn new skills and have new challenges. Other people want the increased

responsibility and higher income that usually accompany advancement. Active steps for advancement include (1) continuing education, (2) developing leadership skills, (3) being active in professional organizations, and, sometimes, (4) changing jobs.

Continuing Education

In order to advance, you must continually improve your job skills, 51-20. Many employers offer classes and seminars for their employees. Take advantage of them. Some employers will pay for classes at a college or professional school if they are related to your job. Many professional organizations offer classes, workshops, and certification programs.

**51-20**

Continue to learn and improve your job skills. Take advantage of classes offered by your employer.

Leadership

Leadership is a critical skill for people who want to get promoted to upper management or start their own businesses. You learned about the traits of a leader earlier in the chapter. You can gain experience by being in positions of leadership. People often develop leadership skills by volunteering to be team leaders at work, 51-21.

People also develop leadership skills through involvement with social, community, civic, and professional organizations. As a student, involvement in career and technical student organizations, student government, clubs, and extracurricular activities can also provide leadership development opportunities. These groups are often willing to let someone with little experience but a lot of enthusiasm take leadership positions in their organizations. You can usually start small, for example, by chairing a committee. In addition, many of these groups offer leadership training. Leadership skills learned in this way are directly transferable to the job.

**51-21**

People often develop leadership skills by volunteering to be team leaders at work.

Professional Associations

Involvement in a professional association is one of the main ways to keep up-to-date in your career, 51-22. Professional associations usually have magazines, newsletters, and Web sites where they publish industry and career information. Many associations have monthly meetings where you can learn about the latest trends and technology, meet others in your career, and learn about job opportunities. Many associations offer classes, seminars, and certificate programs. Professional associations and career and technical student organizations offer many opportunities to develop leadership skills.

Changing Jobs

In order to move ahead, you may have to change jobs. If you like the company you are with, you can often move up the career ladder in the same company. You may still have to go through a formal process to apply for a position within the same company. In other cases, you may want to change companies and jobs.



Photo courtesy of the Multicultural Foodservice & Hospitality Alliance

51-22

Membership in a professional association is a good way to keep up with new trends in your field. It is also a good way to network and learn about job opportunities.

Whenever you are looking for a new job while still in your old job, you must have integrity, 51-23. You must continue to fulfill all your obligations to your current employer. Avoid carrying out any job-hunting activities on your current employer's premises. If you need time to interview, you should take vacation time.

Once you have obtained your new job, you must be professional about leaving your old job. Most businesses require that you give at least two weeks notice before you leave a job. **Giving notice** means notifying your supervisor that you intend to leave your job. Usually, this is done by writing a letter of resignation. This letter should be addressed to your supervisor. The resignation letter should express appreciation for the time you have spent with the company, express regrets about leaving, and give the date of your last day on the job. Then, take the letter with you when you tell your supervisor that you are leaving. Explain that you are leaving the company, express appropriate appreciation, and leave the letter with your supervisor.

**51-23**

When you decide to search for a new job, you must continue to perform your current job with integrity. Avoid job-hunting activities on your current employer's premises. Use vacation time for interviewing.

The two weeks give the employer time to find someone to take your place. This also gives you time to finish up your projects and leave instructions for the next person.

Balancing Multiple Roles

One of the keys to success in life is balancing multiple roles. Each person has many roles in life. A **role** is a set of responsibilities and expectations that go with an aspect of your life. For example, you currently have the role of student. In this role, you are expected to go to school, study your subjects, and do as well as you can. You also have a role as a family member. In your role as family member, you may have certain chores that you are expected to do. You are probably also expected to follow family rules such as a curfew. You also have a role as friend. In your role as friend, you may be expected to join your friends at parties and other social activities.

One of the challenges in life is to balance the many roles you have. Often, the demands of different roles compete for your limited amount of time. For example, your role as student requires time for homework. Your role as friend requires time to develop friendships. Your role as family member requires time for doing laundry. You must figure out a way to manage your time to meet these demands.

As you move through adulthood, you are likely to add many roles to your life. You are likely to add the role of employee. The role of employee requires that you be at work at specific times and perform your job well. You will also add the role of citizen. Your role as citizen requires that you be informed about current issues and vote. You may also add the roles of spouse and parent, 51-24. These roles add responsibilities for relating to and taking care of others.

**51-24**

As you move through adulthood, you will add many roles to your life. Which roles will you add?

You may also add the roles of community member and neighbor. In these roles, you may have responsibilities for organizing and participating in community activities. These roles may include volunteering your time to help others. You may also have other roles, related to your hobbies or special interests. For example, you may be a tennis player or a member of a choir. These roles will also take up time.

When you make your career decision, you may want to consider the other roles

you want to have in your life. How will your career fit in with your other roles? Your time management skills will help you balance your many roles.

**Reality Check**

List all the roles you currently have. How do you balance these roles? List the roles that you expect to have in the future.

CHAPTER 51 REVIEW

Remember This

- Interpersonal skills involve communication skills plus the following: empathy, respect, open-mindedness, humor, positive attitude, trustworthiness, and dependability.
- Team members need excellent communication and interpersonal skills plus the following team skills: (1) leadership, (2) collaboration, (3) conflict resolution, and (4) effective meetings.
- Effective team members participate fully in team meetings and tasks; they also contribute ideas and feelings, listen to and are open to the ideas of others, share information, help other team members, are reliable and cooperative, and have the ability to work with diverse people. Effective team members are committed to the success of the team and its goals.
- An effective team accomplishes its goals. Effective teams share leadership, rotate roles, focus on the goal, work for the common good, and are very productive.
- Five areas in which to develop self-management skills are (1) health, (2) grooming, (3) attitude, (4) organizational skills, and (5) work habits.
- You can advance in your career through (1) continuing education, (2) developing leadership skills, (3) participating in professional associations, and (4) changing jobs.

Review Concepts

1. The text lists seven interpersonal skills. Give an example of how each one works.
2. List six benefits of teams in the workplace.
3. What is the difference between a functional team and a cross-functional team?
4. List nine traits that good leaders often have.
5. List six steps that are helpful in resolving conflict.
6. What is the main difference between an informal meeting and a formal meeting?
7. List five categories of self-management skills.
8. List five rules that will help you stay healthy.
9. List five components of a positive attitude.
10. List two keys to efficient time management.
11. What can you do to combat procrastination?
12. List eight good work habits.
13. Describe four ways to advance on your job.
14. List the roles that adults may have.

Think Critically

1. Look at the list of interpersonal skills. Do you excel in any of these skills? List those skills that you excel in and explain why you excel in them.

CHAPTER 51 REVIEW

2. Look again at the list of interpersonal skills. Which one is the most important? Make your own list of the skills in the order of their importance. Explain the reasoning for your order.
3. Name someone who you think is a good leader. What makes this person a good leader?
4. How can disagreements in the work environment be useful?
5. What self-management health skills do you need to work on?
6. How can you make yourself more organized?

Connect to Business

1. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what kinds of meetings are held. What are the topics of the meetings? Do they use parliamentary procedure? Also, find out if the company uses teams. If not, why not? If yes, what kinds of teams are used and what do they do?
2. Talk with the manager at your workstation or the owner or manager of a local business or store department. Find out what the company does to help employees advance in their careers.

Explore Careers

1. Look in your local newspapers for occupations that require leadership. Choose one of the occupations listed and research the qualifications required.
2. A relatively new career is “organizer.” Use a search engine and the keywords “organizing consultant” to find out what an organizer does.

Connect to the Internet

1. Use a search engine and the keywords “leadership skills” to find at least two articles on the topic. Write down the titles and sources of the articles. What did you learn from each article?
2. Use a search engine and the keywords “time management.” What is available on the Web to help you develop time management skills?

Marketing Terms

entrepreneur
unlimited liability
limited liability
independent business
chain
franchise
franchise agreement
franchise fee
franchisor
franchisee
start-up costs
operating expenses
business plan
U.S. Small Business Administration (SBA)

After studying this chapter,
you will be able to

- describe the two main qualities of a successful entrepreneur.
- explain the difference between a chain and a franchise.
- explain the advantages and disadvantages of the three forms of business ownership.
- describe three ways to start a new business.
- explain the value of a business plan.
- list four resources for entrepreneurs.

Do you dream of being your own boss? Do you have ideas that you are sure would make a lot of money? Have you ever wanted to own your own business? For many people, having their own business and being their own boss is part of the American Dream, 52-1. Many marketing professionals start their own businesses. As you learned in Chapter 6, *entrepreneurship* is the willingness and ability to start a new business. A person who starts a new business is called an **entrepreneur**.

The wealth of the United States was built on the energy and hard work of entrepreneurs. All the great businesses in the United States were started by entrepreneurs. For example, Ray Kroc started McDonald's



Photo courtesy of Apple Computer



Photo courtesy of Apple Computer

52-1

Do you dream of having your own business? Do you want to be an entrepreneur?

Corporation; Henry Ford started the Ford Motor Company; and Walt Disney started the Walt Disney Company. These businesses, and many others, started small and grew into large, successful, global corporations.

**Reality Check**

Do you know any entrepreneurs? Describe them and their businesses.

Who Is an Entrepreneur?

Anyone can be an entrepreneur. It is one of the benefits of a market economy in a democracy. In the United States, everyone is free to start any legal business, 52-2. The kids down the block who set up a lemonade stand

52-2

Anyone can be an entrepreneur. Many teenagers develop businesses using their computers.

are entrepreneurs. The couple who own the florist shop are entrepreneurs. Bill Gates is an entrepreneur.

All businesses are started by entrepreneurs. Many people have ideas for a business, but an entrepreneur turns the idea into a reality. Successful entrepreneurs turn their ideas into successful businesses.

Traits of Successful Entrepreneurs

Many people have tried to determine which traits successful entrepreneurs have. Figure 52-3 shows some of the traits most often associated with successful entrepreneurs. However, many successful entrepreneurs lack one or more of these traits.

Which are the most important traits? The two most important traits seem to be:
 (1) commitment to the business and
 (2) having a product that customers will buy.

Some Traits of Successful Entrepreneurs

Action-oriented	Enthusiastic	Motivated
Adaptable	Goal-oriented	Organized
Confident	Hard-working	Persistent
Creative	High energy	Persuasive
Decisive	Honest	Responsible
Disciplined	Independent	Risk-taking

52-3

Some successful entrepreneurs lack one or more of these traits. Are there any traits that you would add?

Commitment to the business means that the entrepreneur is willing to do whatever it takes to make the business successful. “Whatever it takes” might include getting more technical knowledge, doing research, and continuing to work hard even if it takes a long time to achieve success. The second trait is having a product that customers will buy. Many businesses have failed because customers were not willing to buy the product. Some entrepreneurs who lacked many traits and skills have had great success because customers really wanted their products.



Reality Check

Look at the list of traits in Figure 52-3. Why is each one important for success? Which ones do you have?

Skills of Successful Entrepreneurs

Suppose a person has the commitment and the product. Is that all it takes to be successful? No, a person needs to have certain skills. Many of these skills are learned at school, 52-4. Others are learned

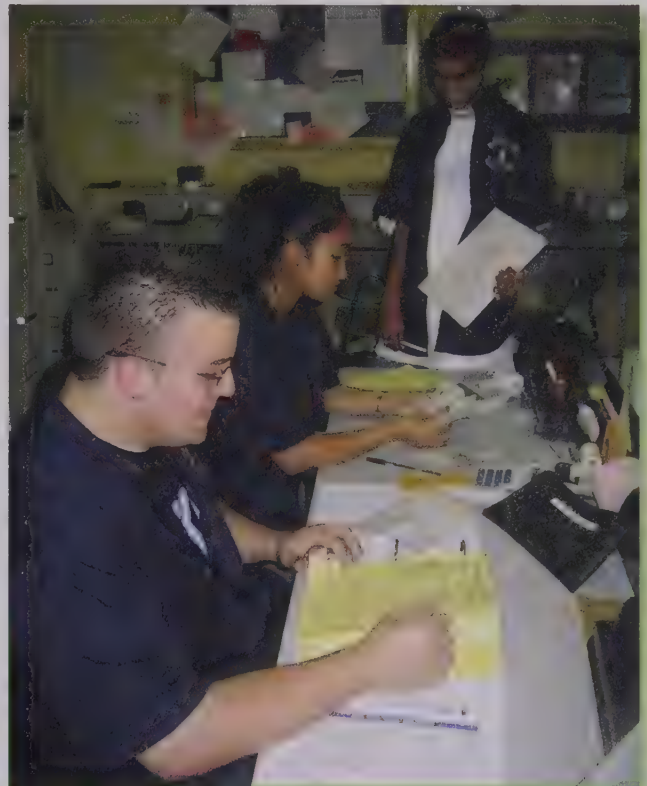


Photo by Dominic Ierardi, Greater Lowell Technical High School

52-4

These students are learning about handling cash for a school event.

through life experiences. These skills include communication, math, business, computers, problem solving, decision making, and human relations.

Entrepreneurs need excellent communication skills. They will need to explain their business to banks to get loans, write business plans, promote their products to customers and suppliers, and organize their businesses. Reading, writing, listening, and speaking are essential skills.

Math skills are needed to calculate start-up costs, monitor sales and profits, and prepare financial statements and tax returns. Inventory management also requires good math skills. Math skills are also needed for pricing.

Some entrepreneurs start their businesses without much business knowledge. However, they quickly find out that they need to know about the economy, accounting, financing, marketing, and business management. Knowledge about these subjects can be obtained through high school and college courses, continuing education courses, and books. A mentor or business consultant can also provide business knowledge and expertise.

Problem solving and decision making are two skills that go together. Starting a business confronts entrepreneurs with many new situations and problems. Successful entrepreneurs need to be able to analyze a problem, brainstorm and research solutions, and then decide on the best course of action.

Being successful in business requires human relations skills, 52-5. Successful entrepreneurs need to be able to get along with other people, get people to cooperate with them, and persuade people to their point of view. Successful entrepreneurs also need to know how to negotiate fairly and honestly.



52-5

Entrepreneurs need good human relations and communication skills.

Could You Be an Entrepreneur?

The answer is yes. You could be an entrepreneur. It all depends on you. Not everyone wants to be an entrepreneur. Many people are quite happy working for others. However, you should consider entrepreneurship as a career option. Some people start out as entrepreneurs. Larry Page and Sergey Brin, the founders of Google, started their business in their dorm rooms while graduate students at Stanford University. Others work for an established company to gain knowledge and experience. They then start their own businesses. Dave Thomas, the founder of Wendy's, worked for a variety of restaurants before opening the first Wendy's Old Fashioned Hamburgers restaurant.

Many marketing professionals become entrepreneurs. After years of experience working for others, marketers often start their own advertising agencies, public relations firms, or marketing research companies. Many real estate sales agents and insurance agents are entrepreneurs. Many marketing professionals use their marketing



Reality Check

List the skills that entrepreneurs need. Why is each one important for success? Which ones do you have? How could you improve or get these skills?

expertise to start a variety of other consumer or business-to-business companies.

Many teens like yourself are already entrepreneurs. Some run typical babysitting or lawn care services, 52-6. Some run more unusual businesses, such as raising and selling worms for composting and fishing bait. Many teens are using the Internet to start their own businesses. One researcher estimates that about 1.6 million teenagers are making some money on the Internet. Most teens make modest amounts of money from their businesses. However, a few have hit the big time. Michael Furdyk and two

friends sold the Web site they had created for \$1 million, in 1999 when they were all still teenagers.



Reality Check

Have you ever run your own business? If yes, describe it. If no, do you know anyone your age who runs his or her own business? Describe that business.

Advantages and Challenges of Entrepreneurship

What are the best aspects of being an entrepreneur? Many entrepreneurs would answer, "Being your own boss." Entrepreneurs get to develop their businesses the way they want them. Entrepreneurs make their own decisions, without having to check with anyone else.

Many entrepreneurs develop their businesses based on their hobbies and interests, 52-7. The benefit of being an entrepreneur is getting to spend all your time doing something you love. For example, if you love writing jingles and are good at it, you could develop a service that creates jingles for other businesses.

Another major benefit of entrepreneurship is the potential to earn large profits. Entrepreneurs can often make far more money for themselves than they could working for someone else. This aspect is especially apparent in the small businesses that have developed into global businesses. For example, Marriott International, a hospitality services business, began as a small root beer stand in Washington, D.C., in 1927. It is a now global business that has about 128,000 employees and earns about \$500 million in profits.

Successful entrepreneurs make starting and running a business look easy. What you do not see are the costs and how long



52-6

Which skills and talents do you have that you could turn into a business? This person entertains at children's parties.



52-7

This woman turned her love of stained glass into a business.

it took to be successful. There are many challenges to being an entrepreneur. Being your own boss means that you have all the responsibility. You must make sure that all bills get paid, government regulations are met, and customer complaints are handled. If something goes wrong, you must make it right. The success or failure of the business rests entirely on you.

Entrepreneurs take on many risks. The main risk is that the business may fail, no matter how hard you work. There are many aspects of starting a new business that the entrepreneur cannot control. Most entrepreneurs must invest some of their own money. They may also borrow money that they are responsible for repaying. If the business fails, the entrepreneur will likely lose his or her investment and may

go bankrupt. Even if the business does well, it often takes months or years before a new business is profitable.

Most entrepreneurs work very hard, ten or more hours a day, six or seven days a week, 52-8. It may be easy to understand why you have to work hard when the business is starting up. However, most entrepreneurs continue to work hard, even after their businesses are successful.



Reality Check

Do you think the benefits of entrepreneurship outweigh the challenges?

Ownership

Before learning more about starting a new business, you need to know something about business ownership. As you learned in



52-8

Photo courtesy of Apple Computer

It might look easy to start and run your own business. However, most entrepreneurs work very hard and long hours to make their businesses successful.

Chapter 2 and Figure 2-7, there are only three forms of ownership: (1) sole proprietorship, (2) partnership, and (3) corporation, 52-9.

Sole Proprietorship

Sole means *only one*. A *sole proprietorship* is the form of ownership in which only one person owns the business. That one person is called a *sole proprietor*. A sole proprietor has all the responsibility for the business and receives all the profits.

Sole proprietorships are easy and inexpensive to start. Many home-based businesses are sole proprietorships. Examples include dog walking, catering, tax preparation, writing, graphic arts, Web site development, and marketing consulting. Suppose you decide to start a business developing Web sites for small businesses. You set up your office in your living room. You have a computer, software, high-speed Internet connection, a telephone, and a desk. Your business would be a sole proprietorship. You do all the work, and you get all the profits.

Many home-based businesses grow larger, but are still considered small businesses, 52-10. Many are sole proprietorships. Suppose your home-based business grows. You rent an office, and you hire an assistant and a secretary. You now have employees, but you are still the sole owner.

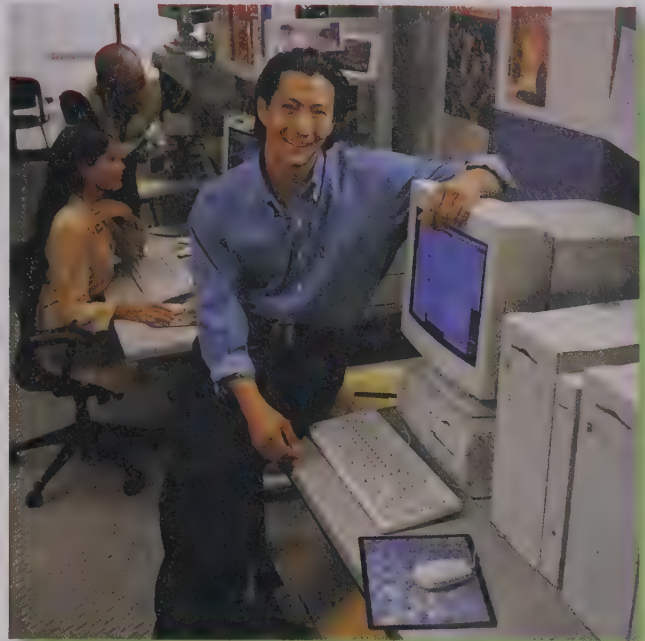


Photo courtesy of Apple Computer

52-10

If a business has only one owner, it is a sole proprietorship, even if it grows and hires employees.

Advantages and Disadvantages of Sole Proprietorships

There are three main advantages of a sole proprietorship: (1) it is easy and inexpensive to start, (2) the owner has total control, and (3) there are minimal

Similarities and Differences Among the Three Types of Ownership

Type of Ownership Structure	Number of Owners	Liability	Ease of Starting	Cost to Start	Government Regulation	Ability to Raise Money
Sole proprietorship	One	Total	Easy	Low	Minimal	Very difficult
Partnership	Two or more	Total	Easy	Low	Minimal	Difficult
Corporation	One or more	Limited	Complex	High	Extensive	Easy

52-9

Different types of ownership are suitable for different types of businesses.

government regulations. There are three main disadvantages: (1) total responsibility, (2) limited ability to raise money, and (3) unlimited liability. The advantage of total responsibility is also a disadvantage. There is no one to share responsibility or to help make decisions.

Limited ability to raise money means that it is often more difficult for a sole owner to get loans. If the business does not require a large investment, then it is not a problem. For example, a home-based dog-walking service requires relatively little money to get started. However, some businesses require thousands of dollars to start. For example, a restaurant requires a great deal of money because a restaurant business requires a building, an equipped kitchen, chefs and kitchen staff, a manager and dining room staff, food and supplies, dining room furniture and decor, insurance, and many other goods and services. A sole proprietor of a restaurant business might have difficulty getting the money needed to start the business.

The third disadvantage is unlimited liability. As you learned in Chapter 31, *liability* means *responsibility*. **Unlimited liability** means that the owner himself or herself is responsible for all the debts and actions of the business. There are no limits to the sole owner's responsibility. In other words, if the business incurs a debt, the owner's personal assets could be at risk. If the business does not have enough money to pay the debt, the owner might have to sell his or her home, car, or other personal possessions to raise money to pay the debt.

Partnership

A *partnership* is the form of ownership in which two or more people own the business, 52-11. The people who are involved in a partnership are called *partners*. Partnerships are similar to sole proprietorships, except that there are two or more people involved. The partners share the responsibilities and the profits.



52-11

A partnership consists of two or more people who own the business and share the responsibilities and profits.

Partnerships are easy and inexpensive to start. Many home-based and small businesses are partnerships. Suppose your Web site development business is growing rapidly. You decide you want a partner. The partnership would be very similar to the business you set up as a sole proprietor, except two people would share the work, the responsibilities, and the profits.

Advantages and Disadvantages of Partnerships

Partnerships have some of the same advantages and disadvantages as sole proprietorships. In some ways, partnerships solve some of the problems of sole proprietorships, but create others. There are four main advantages of a partnership: (1) it is easy and inexpensive to start, (2) the partners share control and responsibility, (3) there are minimal government regulations, and (4) the partners can usually raise more money to start the business. There are three main disadvantages of a partnership:

- (1) shared control and responsibility,
- (2) shared profits, and (3) unlimited liability.

The main advantage of a partnership is that you have two or more people giving ideas, sharing the work, and sharing the responsibility, 52-12. Two or more people can generate more excitement and motivation and keep each other going during the rough times. Two or more people can often be more creative in problem solving and decision making. Two or more people can often gather more money to start the business.

However, this advantage of shared control and responsibility is often the main disadvantage of the partnership. Partners often disagree about how the business should be run and how much of the profits each partner should get. Each partner in the business is responsible for decisions made by any of the other partners. Suppose one partner decides to sign a contract to buy a building for the business. All the

other partners are bound by that contract. If partners discuss all decisions and agree on how the business should be run, then a partnership can work quite well. Medical and law practices are often partnerships.

Partnerships also have unlimited liability. The partners share in the liability; however, the personal assets of each partner can be used to pay off the debts of the partnership. Thus, similar to the sole proprietorship, the personal assets of each partner are at risk.

Corporation

A corporation is a more complicated form of ownership. As you learned in Chapter 2, a *corporation* is a legal entity established for the purpose of doing business. As a legal entity, a corporation can perform all business activities. A corporation can buy property, run a business, manufacture products, earn money, pay taxes, sue, and be sued. A corporation can even buy businesses and other corporations.

In order for a corporation to be established, the people who want to start the corporation apply for a legal document called a *charter* or *certificate of incorporation*. These documents are available from a state government. Usually, a business that has been incorporated has the word *corporation*, *incorporated*, or *inc.* as part of its business name. The formal name of McDonald's is the McDonald's Corporation.

Who owns a corporation? The people who own stock in a corporation are the corporation's owners. The stockholders buy stock (also known as *shares*) in the corporation. They receive one or more certificates that state the number of shares they own. The stockholders then get the profits from the business, based on the number of shares they own, 52-13.

There are many different kinds of corporations. Many of the largest and most well-known are public corporations. The stock of public corporations is sold on a stock



Photo courtesy of Apple Computer

52-12

A partnership can bring more resources to the business. It is often easier and more fun to have a partner to help with decision making and problem solving.



52-13

Hundreds of people can own stock in a big corporation.

market. Anyone can buy a share of a public corporation. For example, McDonald's is a public corporation. Shares of McDonald's are sold on the New York Stock Exchange.

Advantages and Disadvantages of Corporations

There are two main advantages of the corporate form of ownership: (1) limited liability and (2) the ability to raise large sums of money. There are two main disadvantages: (1) complex and expensive to start and (2) many government regulations.

In the eyes of the law, the owners of sole proprietorships and partnerships are the same as their businesses. These owners have unlimited liability, and their personal assets can be taken to pay for business debt.

In the eyes of the law, a corporation is separate from the people who own it. Therefore, a corporation offers its owners limited liability. **Limited liability** means that the owners are only responsible for the amount of money that they invested when they bought shares of the stock. The owners can only lose the money they invested in the corporation. The owners' personal assets

cannot be sold to pay the corporation's debts. If the corporation is sued, the individual stockholders are not sued, and the individual stockholders are not liable for any damages awarded from the lawsuit. The damages are paid from the corporation's income.

Corporations can raise large sums of money. Corporations raise money by selling stock. Because it can raise a great deal of money, a corporation can grow to be very large.

One of the disadvantages of the corporate form of ownership is the expense and complexity to start one. A lawyer is usually needed for the process of preparing and filing the forms, and there are filing fees, 52-14. Another disadvantage is the large number of government regulations that corporations must follow. In addition, the income from corporations is more heavily taxed.

A New Type of Corporate Structure

Recently, a new type of corporate structure has been established, the limited liability company, or LLC. The LLC combines some of the advantages of corporate



52-14

A lawyer is usually needed to correctly and legally set up a new corporation.

structure with some of the advantages of sole proprietorships and partnerships. One of the advantages of LLCs over sole proprietorships and partnerships is that the LLC is a separate legal entity, and the owners are not personally liable for the debts of the company.

Which Form of Ownership Is Best?

Each form of ownership has its advantages and disadvantages, 52-15. Each owner has to choose the form of ownership that will work the best for his or her business. Sometimes the form of ownership changes. A partner may buy out the other partner and become a sole proprietor. A sole proprietor may decide to take on a partner. Sole proprietorships and partnerships may decide to incorporate.



Reality Check

Name one business in your community for each type of ownership. How do you know which type of ownership the business has?

Chains and Franchises

There is another way to organize the structure and ownership of businesses. This method sorts businesses into three categories: (1) independent businesses, (2) chains, and (3) franchises.

Independent Businesses

An **independent business** is a business that has only one location and is not part of any other business. An independent business is not connected legally or by contract to any

Ownership Structures: Advantages and Disadvantages



Sole Proprietorship

Advantages: Easy to start, minimal government regulations, owner has total control

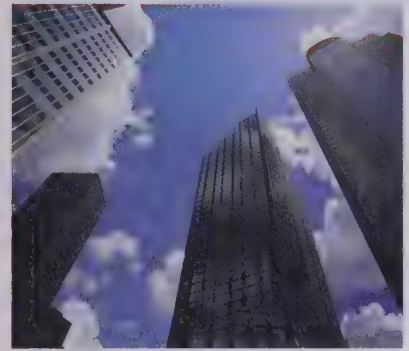
Disadvantages: Unlimited liability, owner has total responsibility



Partnership

Advantages: Easy to start, minimal government regulations, partners share control

Disadvantages: Potential conflict among partners, unlimited liability



Corporation

Advantages: Limited liability, easier to raise money for the business

Disadvantages: Complicated and costly to start, many government regulations

Each ownership structure has advantages and disadvantages.

other business. An independent business is often owned by a sole proprietor. However, independent businesses can have the partnership or corporate form of ownership.

An example of an independent business is Amore's Italian Restaurant. It is owned by Antonio Amore. He came to the United States in 1984 and dreamed of opening his own restaurant specializing in authentic Italian food. He uses his mother's recipes for most of the menu items. There is one restaurant in one location. Antonio is a sole proprietor.

Chains

A **chain** is a business that has more than one location, but only one owner. Each location has the same name and offers the same products. For example, suppose

Antonio Amore decides to open two more Amore restaurants. Amore's would now be a chain. An example of a chain is the Olive Garden Restaurants. There are over 500 Olive Garden Restaurants. They all have the same single owner, a company called Darden Restaurants, Inc.

Franchises

A franchise is a little bit like a chain and a little bit like a sole proprietorship. The franchise structure is very popular, but a little more complex than a chain. Many of the largest and most well-known businesses are franchises. A wide variety of businesses have been franchised, such as fast-food restaurants, fitness centers, and hair-care salons, 52-16. The following discussion explains franchises.

Examples of Businesses Structured as Franchises

Business Category	Examples
Auto service and repair	Jiffy Lube, Meineke Car Care Centers, Midas Auto Service Experts
Commercial cleaning services	Jani-King, ServiceMaster Clean, Jan-Pro, CleanNet USA
Fast-food restaurants	McDonald's, Subway, Burger King, Taco Bell, Hardee's, Arby's
Fitness centers and programs	Curves, Jazzercise, Gold's Gym, Fitness Together
Hair-care salons	Supercuts, Great Clips, Fantastic Sams, Sport Clips
Ice cream restaurants	Baskin-Robbins, Dairy Queen, Ben & Jerry's, Häagen-Dazs Shoppe
Mailing and package services	UPS Store, Parcel Plus, AIM Mail Centers, PAK Mail
Pizza restaurants	Papa John's, Hungry Howie's Pizza & Subs, CiCi's Pizza, Pizza Factory, Pizza Inn
Printing services	Minuteman Press, ProForma, Allegra Network, PIP Printing
Real estate sales	RE/MAX, Century 21, ERA, Help-U-Sell
Retail stores	Athlete's Foot, 7-Eleven, RadioShack, HobbyTown USA, Snap-on Tools
Supplemental education	Huntington Learning Centers, Sylvan Learning Centers, Kumon Math & Reading Centers
Travel services	Travel Network, Carlson Wagonlit Travel, CruiseOne

Many businesses are structured as franchises.

Here is how a franchise comes about. The owner of a chain wants to expand the chain by opening more units. However, the chain owner does not have enough money to open a new unit. Someone outside the chain offers to provide the money to open a new unit of the chain. The outside person wants to use the brand and products of the chain to open his or her own business. However, the chain owner wants to make money from the use of his or her successful concept. The chain owner and the outside person enter into a franchise agreement, and the new unit of the chain is called a franchise.

A **franchise** is the right to do business using the brand and products of another business. The legal document that sets up a franchise is called a **franchise agreement**. The franchise agreement includes the rules and standards that the outside person must follow in running the franchise. The

franchise agreement also states the franchise fee. The **franchise fee** is the money that the outside person pays the chain owner for the right to use the chain's brand name and to sell the chain's products.

The term *franchise* also refers to the business that is set up through a franchise agreement. The person who owns the chain and the brand is called the **franchisor**. The person who buys the right to use the brand is the **franchisee**. The franchisee owns the franchise business, but is connected legally by the franchise agreement to the franchisor.

For example, suppose that Antonio Amore wants to expand his business, 52-17. Suppose that Mary Green wants to open an Italian restaurant. Antonio can decide to grant a franchise to Mary. Antonio is the franchisor. Mary is the franchisee. The franchise agreement would state that Mary may open a restaurant called Amore's, using

Antonio's Business Expands

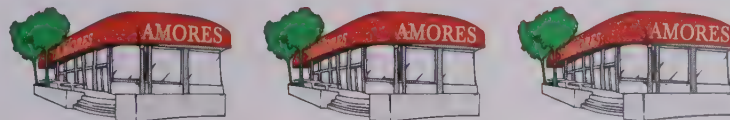
Independent

Antonio is sole owner of one unit.



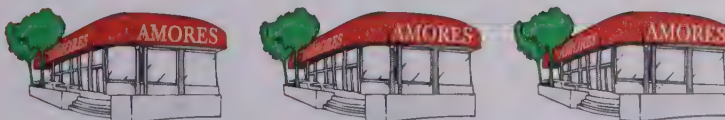
Chain

Antonio is sole owner of three units.

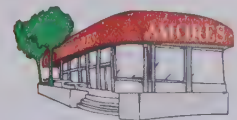


Franchise

Antonio is sole owner of three units and the Amore's brand.



Mary, as a franchisee, owns one unit.



52-17

This figure gives a simplified view of how a franchise may develop. After franchising one unit to Mary, Antonio may decide to franchise units to other people, thus expanding the brand and the franchise.

Antonio's mother's recipes. The franchise agreement would include how much Mary would pay for the franchise (the franchise fee) and how much Antonio has to help her start the business. Mary might also have to pay a certain percentage of the profits to Antonio (royalty fee).

The franchise agreement would include the requirement that Mary run the business the way that Antonio wants. The advantage to Mary is that Amore's is already famous for its excellent food. Mary will also get help from Antonio to start and run her restaurant. Mary will own her unit of Amore's, but she will be part of the Amore's chain. As a franchisee of the Amore's chain, she will have to follow the rules set by Antonio.

The Difference Between Chains and Franchises

All franchises are part of a chain, but not all chains offer franchises. For example, the Olive Garden chain does not sell any franchises. If you want to run an Olive

Garden restaurant, you have to apply to Darden for a job as a manager of one of the Olive Garden units. As a manager, you are an employee of Darden, Inc. You cannot buy an Olive Garden restaurant.

On the other hand, McDonald's is a chain that offers franchises. If you want to own a McDonald's restaurant, you can apply for a franchise from McDonald's Corporation. Figure 52-18 presents some of the similarities and differences between chains and franchises.

How to Start Your Own Business

There are three ways to start your own business: (1) buy an existing business, (2) buy a franchise, and (3) start your own business.

Buy an Existing Business

From time to time, an independent business is offered for sale. Businesses for

Comparison Between Chains and Franchises

Chain Owner	Franchisor (owner of a chain that offers franchises)	Franchisee (owner of a unit of a franchise)
Owns all units of chain	May or may not own some units of chain	Owns one or more units of chain
Owns name and products of chain	Owns name and products of chain	Pays for the rights to use the name and products of the chain; gets help from franchisor to set up the franchise
Sets the procedures and standards for the chain	Sets the procedures and standards for the chain, including all franchised units	Must follow the procedures and standards set by the franchisor
Gets all profits from all units of the chain	Does not get profits from franchised units; gets fees from each franchisee; may also get a percentage of the profits	Franchisee gets profits from his or her franchise; must pay a fee to franchisor; may also have to pay a percentage of the profits to the franchisor

52-18

Although a chain and a franchise may seem the same from the outside, there are differences in ownership and control.

sale may be listed in the newspaper in the classifieds section under the heading "Business Opportunities." There are also Web sites that specialize in listing businesses for sale. These sites often list advertising agencies and other marketing businesses for sale, as well as many consumer businesses.

There are many advantages to buying an existing business, 52-19. The business already has customers, employees, a location, business equipment, and working business operations. The business has records that describe its financial history. In addition, the person selling the business may be willing to act as a consultant to help you get started in the business.



52-19

Buying an existing business can be a good way to start your own business.

The main disadvantage of buying an existing business is that you may be buying problems. The most important question to ask when buying an existing business is, "Why is this business being sold?" Many businesses are sold because they are not making a profit. However, some businesses are sold because the owner is ready to retire. Such a business might be an excellent choice.

Buy a Franchise

There are many advantages to buying a franchise. The main advantage is that you have an established product or service with an established reputation. In addition, the franchisor provides assistance with many aspects of starting and running the business. For example, McDonald's runs Hamburger University for training its franchisees. Another advantage of a franchise is quantity purchasing. Because your business is part of a franchise, you can place your orders for supplies with all the other franchisees. The result is that the cost of supplies is often much less than they would be for a single purchaser.

There are disadvantages to owning a franchise. The main one is that the franchisor makes many of the decisions. The franchisee must follow the rules and requirements set by the franchisor. From the beginning, the franchisor will set certain requirements that you must meet in order to be considered for buying a franchise. For example, McDonald's has a list of six qualifications that they require, 52-20.

Another disadvantage is the initial cost to buy the franchise. Franchise fees vary, but fees for well-known and successful franchises are often in the \$20,000 to \$75,000 range, or more. These fees do not include the start-up costs. In addition, you usually have to pay an ongoing franchise fee, often called a *royalty fee*. This fee is based on your profits and can vary from 5 percent to over 12 percent. In addition, the franchisor can terminate

Qualifications in Order to Be Considered for a McDonald's Franchise

1. An entrepreneurial spirit and strong desire to succeed
2. The ability to motivate and train people
3. The ability to manage finances
4. The willingness to personally devote full time and best efforts to the day-to-day operation of the restaurant as an on-premises franchisee
5. The willingness to complete a comprehensive training and evaluation program on a part-time basis, in order to become proficient in all aspects of running the restaurant business
6. Financial qualifications

Source: www.media.mcdonalds.com, 2/23/2005

52-20

The franchisor sets certain requirements that you must meet in order to be considered for buying a franchise. For example, McDonald's has a list of six qualifications.

the franchise agreement for any number of reasons. If this happens, the franchisee may lose all of his or her investment.

Start Your Own Business

Many entrepreneurs decide to start their businesses totally on their own. They are not interested in buying an existing business or a franchise. Starting totally on your own gives you the opportunity to develop the business the way you want it. You can take your own ideas and turn them into reality.

The advantage of starting from scratch is that you get to make all the decisions, 52-21. You decide on the product, service, location, and concept. You will get all the profits.

The disadvantage is that you also take on all the risk. Your new business has no track record. That makes it harder to get loans or raise money for the business. Planning a new business, whether you buy one or start your own, takes a great deal of time and research. However, the existing business has already



52-21

When you start your business from scratch, you get to make all the decisions. You get to run your business the way you want to.

had many decisions made for it. For a new business, you have to do enough market research and financial planning to make sure the business will be financially sound.

Many marketers use their experience working for an established marketing company as a launching point for their own businesses. Based on many years of experience with the established company, the marketer knows the field and the market for the services. Based on this knowledge and experience, the marketer can launch his or her own marketing business. Sometimes the clients from the established business will follow the marketer to the new business.



Reality Check

If you were starting a new business, which method would you use? Why?

Costs

The costs to start a new business are called **start-up costs**. Some businesses are very expensive to start, such as a fast-food

franchise. Other businesses do not require much in start-up costs. Once the business is started, you need money for the day-to-day expenses, such as rent, salaries, utilities, and supplies. The costs to keep a business running are called **operating expenses**. It usually takes some time before a new business is earning enough money to cover operating expenses.

Many new businesses need more money than one person or a group of partners can raise. As a result, most businesses need a loan to get started. The money from the loan usually covers the start-up costs and operating expenses for several months.

The most common source of loans is a bank. In addition, there are several government agencies that will help new businesses with financing. In order to obtain a loan, you have to prove that you know what you are doing. You also have to show that your business will earn enough money so that you can repay the loan. Most banks and other lenders require that you submit a business plan, 52-22. The lenders use the business plan to evaluate whether your business will be successful and to decide whether to offer you a loan.

**52-22**

This bank officer will require that these partners submit a business plan before she will consider their request for a loan.

The Business Plan

A **business plan** is a written document that describes a business and how it will operate. A business plan is a required part of a business loan application. Writing a business plan is also a valuable planning tool. Researching and writing a business plan will help you figure out how to start and run your business successfully. It is worth the time and effort to carefully and thoroughly research and write your plan. Many entrepreneurs spend between 50 and 100 hours on their business plans.

In general, a business plan covers all the activities that go on in the business. The plan usually has seven parts:

- **Executive Summary.** The executive summary is the first part of a business plan, but it is usually the last part written. The summary is the sales piece of the document. In it, you should present the key points in a way that makes the reader excited about your business and its potential for success. The executive summary is the first thing that the lenders will read. If they are not impressed with the summary, they might not bother to read the rest of the business plan.
- **Description of Business.** The description of the business should include your business concept, your goals, your product, and your ownership structure. Emphasize what is unique about your business and what will make it successful.
- **Industry/Competition Analysis.** This section describes the current state of the industry and economy in the area where you want to start your business. Include a description of the competitors and an analysis of the need for your business. Describe the competitive edge that your business will have over the competitors.

- **Customers/Target Market.** Customers will be crucial to the success of your business. In this section, describe your target market. Estimate how many customers you expect to have and how much they might spend at your business.
- **Marketing Plan.** In this section, describe how you will tell your customers about your business and how you will convince them to buy your products and services. Describe what kind of advertising you will do and whether you will have a sales force. You will also need to estimate your marketing budget and plan a timetable for your marketing program.
- **Operations Plan.** The operations plan discusses the nuts and bolts of the day-to-day running of the business. This section should cover the following topics: organizational chart, operations procedures, material resources needed, technology needed, human resources needed, and the staffing plan. This section must be very detailed to show the bank that you know how to run the business. This section should also include a list of your key staff members and their resumes. The bank will want to know that the people involved in your new business have the experience and knowledge to run the business.
- **Financial Plan.** The financial plan describes how you will fund the business and how you expect to make a profit. First, present the start-up costs. Then describe how you will get the money to cover the start-up costs. Include how much of your own money you will use and the amount and source of any loans. When you discuss the loans, explain how you will pay them back. Also present anticipated sales and profits. This section will include many financial documents, such as budgets, cash flow analysis, profit and loss statement, and balance sheet.

Once a business plan is written and the loan is obtained, the business plan can be used as an operating guide. Business plans should be reviewed and updated regularly.

Resources for Entrepreneurs

Small businesses run by entrepreneurs are the backbone of the American economy and contribute the following:

- create more than half the new jobs
- employ about half of the nongovernmental workers
- contribute about half of the gross domestic product
- invent more than half the nation's new technology
- create opportunities for women, minorities, and immigrants
- provide a way for millions of people to enter the economic and social mainstream of America

Because small businesses are so important to the success of the U.S. economy, the U.S. government supports small businesses through the U.S. Small Business Administration. Congress created the **U.S. Small Business Administration (SBA)** in 1953 to help America's entrepreneurs form successful businesses. Today, the SBA has offices in every state. One of the major goals of the SBA is to help small businesses obtain loans. During the ten years between 1991 and 2000, the SBA helped nearly 435,000 small businesses get more than \$94.6 billion in loans. The SBA also offers management and technical assistance to more than one million small business owners. The SBA also has a Web site (www.sba.gov), 52-23. From its home page, you can access information on starting your business, financing, and disaster assistance, as well as information on many other business topics.

United States Small Business Administration search this site GO

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- SBA Technical Assistance Programs Reached Record 2.44 million People (En Español)
- SBA, Urban League Join to Promote Entrepreneurship
- Record Demand Continues for Government-Backed Small Business Loans

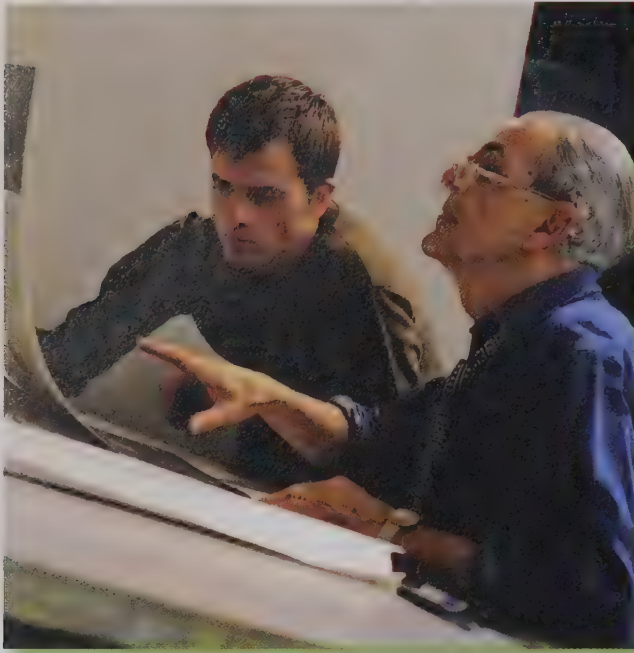
www.sba.gov, 12/29/04

52-23

The U.S. Small Business Administration provides a great deal of information on their Web site (www.sba.gov).

Through SBA you can reach SCORE, the Service Corps of Retired Executives. The members of SCORE are retired executives who volunteer their time to help new

entrepreneurs develop their business plans and their businesses, 52-24. Other government sources of information include Small Business Investment Companies,

**52-24**

SCORE, the Service Corps of Retired Executives, consists of retired executives who are eager to help new entrepreneurs with their businesses.

Minority Enterprise Small Business Investment Companies, the Economic Development Administration, and state and local governments.

Your local chamber of commerce is likely to have a great deal of information on the business environment in your area. A *chamber of commerce* is a group of businesses that get together to promote business in their area. Most states, cities, and towns have a chamber of commerce. The chambers may also offer programs for entrepreneurs as well as networking opportunities.

Another good source for information is your library. There you will find many books and magazines on entrepreneurship, business management, financing, and marketing. You will also find resources for researching the information you need to develop your business plan. Professional associations and industry groups can also be good sources of information. For example, if you are interested in opening a retail store, the National Retail Federation has information to assist you.

CHAPTER 52 REVIEW

Remember This

- The two most important traits of successful entrepreneurs seem to be: (1) commitment to the business and (2) having a product that customers will buy.
- All franchises are part of a chain, but not all chains offer franchises.
- There are only three forms of business ownership: (1) sole proprietorship, (2) partnership, and (3) corporation.
- There are three ways to start a new business: (1) buy an existing business, (2) buy a franchise, and (3) start from scratch.
- A business plan is a valuable planning tool and is required in applications for business loans.
- Resources for entrepreneurs include the U.S. Small Business Association (SBA), chambers of commerce, the library, and state and local governments.

Review Concepts

1. Which two traits seem to be the most important for an entrepreneur to be successful?
2. List seven skills that entrepreneurs need.
3. Name two advantages and two disadvantages of being an entrepreneur.
4. Describe the three forms of business ownership.
5. Sole proprietorships and partnerships have unlimited liability. What does this mean?
6. As a shareholder of a corporation, you have limited liability. What does this mean?
7. Which form of ownership is best?
8. How are an independent business and a chain similar and different?
9. What is the difference between an independent business owner and a franchisee?
10. List three ways to start a new business.
11. What is the difference between start-up costs and operating expenses?
12. List the seven parts of a business plan.
13. Why do people say that small businesses are the backbone of the American economy?
14. If you wanted to start a new business, where could you go for help?

Think Critically

1. How could the classes you have taken or plan to take help if you decided to become an entrepreneur? Explain your answer.
2. Could you be an entrepreneur? Which entrepreneurial traits and skills do you possess?
3. Do you want to be an entrepreneur? Explain your answer.
4. If you have a sole proprietorship, you have unlimited liability. Why is unlimited liability a disadvantage?
5. What form of ownership do you think is best? Explain your answer.

CHAPTER 52 REVIEW

- Why do the U.S. government and state and local governments encourage entrepreneurship?

Connect to Business

- Locate an independent business and a franchise in your community. Identify the owners of each and the products or services they provide.
- Contact your local chamber of commerce on their Web site, by visiting the office, or by reading their monthly newsletter. What does the chamber of commerce do to help businesses and entrepreneurs in your community?

Explore Careers

- Imagine that you have decided to become an entrepreneur. What kind of product would you sell? Would your market be consumers or businesses? What form of ownership would you choose? Complete a career report on the advantages and disadvantages of being an entrepreneur, and the possibilities of your success in the business world.
- Interview a local entrepreneur. Note the name of the business, the name of the entrepreneur, and the form of ownership. Find out where the idea for the business came from. How did the entrepreneur get the start-up money? Why did he or she choose the form of business ownership? What does he or she think is the most important experience that a potential entrepreneur needs?

Connect to the Internet

- The SBA has a special Web site for teens interested in entrepreneurship (www.sba.gov/teens). Visit the Web site. How could this Web site help you start a business? Click on the link "Success Stories." Choose one to read. What qualities helped this entrepreneur become successful?
- Visit the Web site of a major corporation. Click on the "About Us" link and search for the company history. Web sites to try include Wendy's (www.wendys.com); click on the link "About Us" and then "The Wendy's Story" and "Meet Dave." Another Web site to try is UPS (www.ups.com); click on the link "UPS Corporate," then "About UPS," and then "More UPS History." Who started the company? How did the company get started?
- Visit the Web site of one of the franchises listed in the text. Find the information about buying a franchise. Would you want to buy one of these franchises? Explain why or why not.
- Use a search engine to find Web sites that sell businesses, such as www.small-biz-network.com. Browse the businesses for sale. Choose one that appeals to you. Write a report on the type of business, the asking price, sales revenue, net profit, and reason for selling the business. In addition, explain why you would like to purchase this business.

Glossary

80/20 rule. Majority of a business's profits come from a small number of customers; based on research that shows that 80 percent of the sales come from 20 percent of the customers in many businesses. (16)

A

ability. Knowledge to perform a task. (47)

active listening. Listening in which the listener is thinking about what is being said. (49)

active reading. Reading in which the reader is thinking about what he or she is reading. (49)

adaptation strategy. Making changes in product or promotion or both to meet the target market's culture, needs, and wants. (25)

adding value. Adding a feature or service that makes a product meet more customer wants and needs. (3)

advanced technology. Industrial and digital technologies. (6)

advertisement. Single advertising message paid for by an identified sponsor; also called *ad*. (38)

advertising. Nonpersonal promotion paid for by an identified sponsor. (36)

advertising agency. Business that develops an ad or commercial, and then places it in the appropriate media. (39)

advertising plan. Plan that specifies how the money budgeted for advertising will be used. (39)

agenda. List of topics to be discussed, decisions to be made, or other goals for a meeting. (51)

agent. Intermediary who brings buyers and sellers together; also called *broker*. (26)

approach. Second step of the approach stage of the sales process; salesperson makes first contact with a potential customer. (43)

aptitude. Natural talent or natural ability to do something. (47)

artifact. Object or product used to communicate information about oneself or one's status. (35)

asset. Something of value that a business owns. (30)

assortment. Selection of goods that a retailer carries. (28)

attitude. The way you look at the world and the way you respond to events that happen. (51)

audience. Person or people to whom a message is sent; also called *receiver*. (34)

automation. Use of machines to perform tasks that were originally done by people. (24)

B

B2B. Business selling to business. (4)

B2C. Business selling to consumers. (4)

balance of payments. Income from exports minus the outgo from imports. (12)

balance sheet. Financial record that shows a company's net worth. (30)

bank credit card. Credit extended by a bank, credit union, or finance company; can be used at any business that accepts the card. (45)

banner ad. Rectangular ad that runs the width of a Web page; also refers to ads of other sizes that appear on a Web page. (41)

behavioral segmentation. Segmenting a market based on the way customers use a product or behave toward a product. (16)

benchmarking. Comparing your company's goods, marketing, and production processes with the processes of the leading companies in your market. (24)

benefit. Need-satisfying ability of a product. (22)

Better Business Bureau (BBB). Organization that promotes fair advertising and selling practices across all industries. (39)

bid. Formal written proposal that lists all the goods and services that will be provided, their prices, and the timeline. (18)

body language. Communication through facial expressions, gestures, body movements, and body position in space. (35)

bottom line. Last line of an income statement; it shows whether a business has made a profit or had a loss. (30)

brand. Mark or design placed on a product to distinguish it from other products and to identify the owner of the brand. (22)

brand loyalty. Situation in which the customer will buy only a certain brand of a product. (22)

brand name. Part of a brand that consists of words, numbers, or letters that can be spoken. (22)

brand position. Image that a brand has in the mind of the customer. (22)

break-even point. Point at which revenue from sales equals costs. (33)

bricks-and-mortar business. Business that serves customers from a building or store; also called *traditional business*. (29)

broker. Intermediary who brings buyers and sellers together; also called *agent*. (26)

budget. Financial plan for a business. (30)

bulk-breaking. Process of separating a large quantity of goods into smaller quantities for resale. (26)

business. General term for all the activities involved in the development and exchange of products. Also used to refer to a specific person or group of people who are involved in the development and exchange of products; also called *firm*, *company*, *organization*, *corporation*, *enterprise*. (2)

business cycle. Alternating periods of expansion and contraction in the economy. (10)

business market. Customers who buy products for use in a business; also called *industrial market*, *organizational market*, *commercial market*. (4)

business opportunity. Chance for success provided by the combination of a product idea and a market that is willing and able to buy the product. (15)

business plan. Written document that describes a business and how it will operate. (52)

business products. Products (goods, services, and ideas) sold to businesses (or organizations or governments) for business uses. (21)

business social responsibility. Obligation to make business decisions that consider the impact on society; includes the requirement to reduce harmful impacts of business processes and to contribute to improving society. (5)

business-to-business sales (B2B sales). Sales made from one business to another business; also called *field sales*, *industrial sales*, *organizational sales*. (42)

buyer. Person who buys items for resale; also called *professional buyer*, *retail buyer*, *merchandise manager*. (18)

buying motive. Reason that a consumer seeks a product. (17)

buying signals. Verbal or nonverbal signs that a customer is ready to buy. (45)

buzz marketing. Promotion designed to look as though it is coming from an unbiased stranger or a friend, instead of from a corporation. (37)

C

call center. Office equipped with a large number of telephones. (42)

capital. Any manufactured product used to make another product; includes machinery, buildings, vehicles, and computers; also can refer to the money used to buy capital. (6)

capital goods. Manufactured products used to make final products. (6)

capital-intensive goods. Goods that require mainly machines for production. (24)

capitalism. Another term for *market economy*. (7)

capitalist economy. Another term for *market economy*. (7)

career. Series of related jobs in the same career area or occupation. (48)

career and technical student organization (CTSO). Organization for high school students interested in a career area such as marketing. (48)

career ladder. Series of jobs organized in order of education and experience requirements. (48)

career plan. List of steps that will enable you to achieve your career goal. (47)

carrier. Company that owns trucks, trains, planes, or ships used for transportation; also called *transportation company*. (27)

cellular phone. Wireless, portable telephone that can send and receive messages in most areas. (49)

census. Count of the people in a country made by the government on a regular basis. (16)

centrally planned economy. Economy in which the national government makes all the economic decisions; also called *command economy*. (7)

chain. Business that has more than one location, but only one owner. (52)

chamber of commerce. Group of businesses that get together to promote business in their area. (20)

channel member. Specific business that is part of the channel of distribution for a specific product. (26)

channel of distribution. Route a good takes from its original source to its final customer; also called *supply chain*. (26)

charge card. Type of credit extended by a store; looks like a credit card, but can be used only at the store that issued the card. (45)

clarity. Ability of a message to be understood. (35)

close. The moment when a customer agrees to buy a product; also the third stage in the selling process. (45)

code of ethics. List of rules to help a person make ethical decisions. (5)

collaboration. Working with others to achieve a common goal. (51)

color scheme. Description of color combinations. (40)

color wheel. Standard arrangement of 12 colors in a wheel that shows the relationships among the colors. (40)

command economy. Economy in which the national government makes all the economic decisions; also called *centrally planned economy*. (7)

commercial. Advertising message sent by broadcast media. (38)

communication. An exchange of information. (34)

communication process. Path a message follows. (34)

competition. Contest between two or more businesses to get customers. (8)

competition grid. Chart used for recording information about competitors. (19)

competitive advantage. Aspect of a product that is better than the competitors' products. (23)

competitive edge. The special feature or aspect of a product that makes it different from and better than the others. (19)

competitor. One of the businesses that compete for customers. (19)

computer-aided design (CAD). Use of computers for designing goods. (24)

computer-aided manufacturing (CAM). Use of computers to control production processes. (24)

confidentiality. Ability to keep confidential information private. (5)

conflict. Situation in which disagreements lead to hostile behavior, such as shouting or fighting. (51)

consolidated shipping. Putting two or more companies' orders in a truckload, train car, or shipping container. (27)

consumer. Member of the consumer market; customer who buys products for his or her own use. (4)

consumer economy. Another term for *market economy* because consumers have a great influence on this type of economy through what they buy and how much they buy. (7)

consumer market. Customers who buy products for their own use. (4)

consumer price index (CPI). Measures the average change in prices over time of goods and services purchased by households. (9)

consumer products. Products (goods, services, and ideas) sold to customers for personal use. (21)

consumer sales. Sales to the final consumer, includes store and nonstore sales; also called *retail sales*. (42)

contact point. Instance when an employee and a customer interact. (46)

continuing professional education. Education for people who have already completed their formal schooling and training; also called *professional development*. (48)

contract. Written legal agreement. (27)

contraction. Period of economic slowdown. (10)

cooperative education program. High school program that prepares students for an occupation through a paid job and classes at school; also called *co-op program*. (48)

copy. Text that provides information and sells the product. (38)

corporate brand. Brand that represents the whole company. (22)

corporation. Legal entity established for the purpose of doing business. (2)

correspondence course. Course in which the student and teacher communicate through the postal system or via the Internet. (48)

counterfeit. Fake money. (11)

counterfeiting. Process of making fake money with the intent of using it as real money. (11)

coupon. Printed piece of paper that indicates the product and the amount of price reduction when the coupon is used. (36)

cover letter. Letter that accompanies your resume and expresses your interest in a job. (50)

CPI. Consumer price index; measures the average change in prices over time of goods and services purchased by households. (9)

creativity. Ability to produce something new. (23)

credit. Payment arrangement that enables a customer to take possession of a product now, but pay for it later. (45)

credit contract. Document that spells out the rights and responsibilities of the credit grantor and the credit user; also called *credit agreement*. (45)

cultural bias. Belief that a person's own culture or ethnic group is the best; also called *ethnocentrism*. (14)

culture. Ways of acting, thinking, and feeling that are characteristic of a specific group of people; may include language, food, clothing, religion, history, art, etiquette, and values. (14)

currency. Money in use in a country. (12)

customer. Individual or group who buys products. (1)

customer relationship management (CRM).

Gathering and using customer data to develop better communications with customers. (37)

customer satisfaction. Positive feeling a customer gets when the product purchased meets or exceeds the customer's expectations. (3)

customer service mind-set. Attitude that customer satisfaction always comes first. (46)

customer services. Actions done for customers to help them buy or use the product and provide comfort and enjoyment during the buying experience. (46)

customized strategy. Developing a totally new product to meet specific target market needs. (25)

D

database. Computerized file of information. (20)

debit card. Card that deducts the amount of purchase immediately from your checking account. (45)

debt. Another term for *liability*. (30)

decoding. Translation of a message into terms that the receiver can understand. (35)

demand. Quantity of a specific product that a buyer is able and willing to buy at a certain price, usually at a particular time and place. (8)

demographic changes. Changes over time in the number of people in a demographic category, such as age or income. (14)

demographic information. Statistics (numbers) that describe the characteristics of a population of people, such as age or income. (16)

demographic segmentation. Segmenting a market based on demographic variables, that is, characteristics of a population of people. (16)

depression. Economic slowdown that is very severe and lasts a long time. (10)

design. Purposeful arrangement of materials so that a certain effect is produced. (35)

developed country. Country that has a strong base of industrial production, good infrastructure, and a high standard of living; also called *industrialized country*, *advanced economy*. (12)

developing country. Country that has little industry, poor infrastructure, and a low standard of living; also called *emerging market*. (12)

direct competitors. Businesses that sell similar products. (19)

direct distribution. Channel of distribution with no intermediaries. (26)

direct-response campaign. Seller communicates directly with the buyer and asks for an immediate response, but uses some method other than face-to-face selling, such as a TV shopping program. (37)

discount. Reduction in price. (33)

discount pricing. Reduction from the regular or list price of the product, used in B2B sales. (33)

discretionary income. Income left after taxes and after the necessities of life have been paid for. (16)

discrimination. Unfair treatment of individuals based on prejudice. (14)

display. Arrangement of merchandise designed to get attention and thus promote sales. (40)

disposable income. Income a person has available to spend (dispose of) after taxes have been taken out. (16)

distance learning. Method of education that uses technology so that students can take courses without stepping into a classroom. (48)

distribution. Process of physically delivering goods to customers. (1)

distribution plan. Plan for moving goods in the best way. (27)

diversity. Word used in business to refer to a group that includes people from two or more different backgrounds. (5)

domestic trade. Trade that occurs within the borders of a nation. (12)

dot-com. Business that conducts all of its sales and most of its promotion online via a Web site. (29)

downward spiral. Process that starts moving downward slowly, and then starts moving faster and faster downward. (10)

E

e-commerce. Business activities conducted via the Internet; short for *electronic commerce*. (29)

economic goods and services. Products that you buy to satisfy economic needs. (2)

economic indicator. A measurement of the economy. (9)

economic inputs. Resources used to make products. (6)

economic needs and wants. Needs and wants that you can satisfy by buying something. (2)

economic outputs. Products (goods, services, and ideas) produced by an economic system. (6)

economic system. The system that a nation has developed to turn its resources into products that satisfy needs. (6)

economies of scale. Cost reductions per item resulting from producing or transporting large numbers of items at one time. (27)

effective communication. Communication that gets the desired result. (34)

effective promotion. Promotion that achieves its goals. (36)

efficiency. Degree to which something is produced without waste of time or materials. (24)

elastic demand. Demand that changes with price. (32)

electronic data interchange (EDI). The business-to-business exchange of data (information) by way of computers using standard formats. (28)

electronic funds transfer. National computer system that links banks and businesses; it works by transferring funds electronically from one account to another. (45)

electronic resume. Resume written to be searched by a computer. (50)

e-mail. Electronic document sent through an internal computer system or over the Internet, short for *electronic mail*. (41)

embargo. Government order that prohibits trade. (13)

emergency. Unforeseen event that can cause harm to people and property. (31)

emergency action plan. Detailed plan that describes what to do in case of an emergency; also called *emergency response plan*. (31)

emerging market. Developing country; because developing countries are trying to improve their economies, they are often good markets for business. (12)

emotion. Another word for *feelings*. (35)

empathize. Show that you understand another person's feelings. (44)

empathy. Awareness of another's feelings and the ability to understand those feelings. (43)

employed. Refers to everyone who is working. (9)

employment trend. Direction of change in the number of jobs in a particular career. (48)

encoding. Turning the idea for the message into symbols that can be communicated, usually written or spoken words. (35)

encryption. Process that converts data into a form that can only be read by a person with an authorized code. (29)

entrepreneur. Person who starts a new business. (52)

entrepreneurship. The willingness and ability to start a new business. (6)

entry-level job. First job on a career ladder; requires the least amount of education and experience. (48)

e-tailing. Selling products to consumers over the Internet; short for *electronic retailing*; also called *online retailing*. (29)

ethics. Rules for deciding the right behavior in a situation. (5)

ethnic group. Group of people distinguished from other groups based on country of origin, language, and/or racial characteristics. (14)

European Union (EU). Twenty-five European countries that have joined together to create a supranational organization that works for peace and prosperity in all the member nations. (12)

exceptional customer service. Service that meets and exceeds customers' needs. (46)

exchange. To trade something of value for something you want. (2)

expansion. Period of economic growth. (10)

expenses. Money that goes out of the business to pay for the things that a business buys. Two basic types of expenses are cost of goods and operating expenses. (30)

exports. Products that are sold (go out) to another country. (12)

express. Communicate personal feelings, entertain, and socialize. (34)

extensive decision making. Consumer buying decision that involves a great deal of research and planning. (17)

F

facilitate. To make an action easier. (26)

fad. Something that enjoys high popularity for a short amount of time and then disappears. (20)

feature. A physical characteristic of a tangible product or one of the tasks that will be done as part of an intangible service. (21)

feature-benefit selling. Selling technique that consists of translating product features into customer benefits. (44)

feedback. Response to a message; feedback is a message sent from the receiver back to the sender. (34)

final product. Consumer product, that is, a product purchased by consumers. (6)

finance. The function of business that includes all activities involving money. (2)

financial institution. Business whose product is a service: handling money. (30)

financial planning. Process of setting financial goals and developing methods for reaching them. (30)

financial services. Money-handling services that a financial institution provides, including deposits and checking, loans, investments, and insurance. (30)

fixture. Item designed to hold merchandise for display and sale. (40)

focus group. Small group of people who discuss topics of interest to a researcher. (20)

foreign exchange rate. Cost of one currency in terms of another currency. (12)

form utility. Type of utility added to a product when a business changes the form of something to make it more useful. (3)

Four Ps. Product, price, place, and promotion. (1)

franchise. The right to do business using the brand and products of another business. (52)

franchise agreement. Legal document that sets up a franchise. (52)

franchisee. Person who buys the right to use the brand. (52)

franchise fee. Money that the outside person pays the chain owner for the right to use the chain's brand name and to sell the chain's products. (52)

franchisor. Person who owns the chain and the brand. (52)

free enterprise. Another term for *market economy*. (7)

free market economy. Another term for *market economy*. (7)

free trade zone. Group of countries that have reduced or eliminated trade barriers among themselves. (13)

full-service presentation. Merchandise presentation in which none of the items for sale are on the floor. (40)

G

GDP. Gross domestic product; the total value of all final products produced in a country during a specific time period; also called *economic output*. (9)

generation. Group of people born during a particular period of history. (16)

generic brand. Product that is not branded. (22)

geographic segmentation. Segmenting a market based on where customers live. (16)

giving notice. Notifying your supervisor that you intend to leave your job. (51)

global economy. All the economic actions of all the countries and all the customers in the world. (13)

globalization. Process in which the economies of nations become interconnected and interdependent. (13)

global strategy. One marketing mix that is used with minimal changes in all markets. (25)

goal. Something that you want to achieve. (47)

goal setting. Process of deciding what you want to achieve. (47)

good. A physical item; something that you can touch. (1) Goods are tangible. (21)

government. Consists of the organizations and institutions that run a geographic area, such as a country, and includes federal, state, county, and local governments. (4)

graphics. Visual part of an ad, such as photographs, illustrations, and color. (38)

greeting approach. Type of sales approach; consists of a friendly welcome to your store or department. (43)

gross domestic product (GDP). Total value of all final products produced in a country during a specific time period; also called *economic output*. (9)

growth rate of the economy. Rate of change of GDP for a specific time period. (9)

guarantee. Promise that a product has a certain quality or will provide satisfaction; this term is usually used in promotions. (21)

H

hazard. Situation that could result in injury or damage. (31)

headline. Words that grab the attention of the reader in an advertisement. (38)

headset. Device connected to a telephone that enables you to use the telephone hands-free. (49)

honesty. Quality of telling the truth, not stealing, doing the work assigned to you, not wasting time, keeping accurate records, and respecting the property of others. (5)

hypothesis. Statement that can be tested and proven either true or false. (20)

I

idea. A concept, cause, issue, image, or philosophy that can be marketed. (1)

import license. Legal document that allows the importer to import certain items in certain quantities. (13)

imports. Products that are bought (come in) from another country. (12)

impulse purchase. Consumer buying decision made with no planning or research. (17)

income statement. Financial report that shows whether a business has made or lost money during a specific time period; also called *profit and loss statement*, *P&L*, *statement of earnings*. (30)

independent business. Business that has only one location and is not part of any other business. (52)

index. A number that shows *change* in value, not the actual value itself. (9)

indirect distribution. Channel of distribution that uses one or more intermediaries. (26)

industry publication. Magazine or newsletter that focuses on a specific industry; also called *trade journal*. (20)

industry sales. All the sales in a product category. (25)

inelastic demand. Demand that is not affected by price. (32)

inflation. General rise in prices throughout the economy. (9)

inflation rate. Rate of change in prices. (9)

inform. Provide information and education. (34)

information interview. Talking to someone to learn about his or her career. (48)

information utility. Type of utility added to a product when a business provides information about a product to a customer. (3)

infrastructure. The transportation systems and utilities necessary for a modern economy. (6)

initiative. Self-motivation; ability to get a job done on your own, without someone constantly reminding you. (51)

inseparable. Characteristic of a service such that production of the service cannot be separated from use of the service. (21)

inside sales. Selling that is done from the seller's place of business. (42)

institution. Nonprofit corporation, such as a school, hospital, or charitable organization. (4)

institutional advertising. Advertising that is intended to generate goodwill toward a company and to create a favorable image; type of institutional promotion. (38)

institutional promotion. Communication that focuses on the image of the organization. (36)

insurance. Financial service used to protect individuals and businesses against financial loss. (31)

intangible. Characteristic of something that exists but is not physical and cannot be touched. (21)

integrity. Quality of following ethical rules, even if no one is around to enforce them; includes treating people fairly, applying rules consistently, and being unbiased and unprejudiced. (5)

interdependence. Situation in which countries rely on each other for economic goods and services. (13)

interest. Cost of borrowing money; usually charged as a percentage of the money borrowed. (30)

interior display. Type of display that is located inside a store. (40)

intermediaries. Businesses between the original source and the customer; also called *resellers*. (26)

international trade. Trade between nations; also called *world trade*, *foreign trade*. (12)

Internet. Computer-based communications network, short for *interconnected networks*. (29)

interpersonal skills. Group of skills that enable you to interact with others in a positive way. (51)

interstitial ad. Online ad that displays while the viewer is waiting for a Web page to download. (41)

interview. Formal meeting between two or more people, during which questions are asked of one person. (20)

intrusive promotion. Any promotional message that interrupts what the viewer is doing or that the receiver did not request. (41)

inventory. Items held in storage. (24)

inventory control. Process of keeping track of all items held in storage. (24)

inventory planning. Deciding which goods to buy, when to buy them, and in what quantities; the goal is to satisfy customer demand while keeping inventory costs low. (28)

inventory shrinkage. Difference between the perpetual inventory and the actual physical inventory. (28)

J

job. Regular position that a person goes to every day, to perform tasks for pay for a specific business or organization; also a specific task done by a worker. (48)

job application. Form that most jobs require you to fill out; has spaces for information about you, your education, and your work experience. (50)

job lead. Information that leads to a job opening. (50)

job shadowing. Following a person while he or she does a job. (48)

just-in-time (JIT). Distribution strategy: materials should not be delivered to the factory until the moment they are needed for production; similarly, finished goods should not be delivered to a retail store until the moment they are needed for sale. (28)

L

labor. Workers; the people who turn resources into products; also called *human resources*. (6)

labor-intensive goods. Goods that require mainly workers for production. (24)

laissez-faire. Policy of not interfering with the economy; a French term that means *let them do as they please*. (11)

land. All the natural resources that a nation has. (6)

law of demand. When prices fall, demand will rise (in a constant environment). (8)

law of diminishing marginal utility. As a consumer consumes more units of the same product, the marginal utility (satisfaction) from each unit goes down. (32)

law of supply. When prices are high, supply will rise (in a constant environment). (8)

laws. A country's rules for proper behavior. (5)

lawsuit. Process of bringing a complaint to a court for resolution. (31)

layout. Arrangement of copy and art on a page. (38)

leader. Person who guides others to a goal. (51)

leadership. Ability of a person to guide others to a goal. (51)

letterhead. Stationery that has the name and address of the company printed at the top of the page. (49)

letter of inquiry. Letter to an employer that expresses your interest in working for that company, highlights your qualifications, and asks if there are any job openings. (50)

liability. Money that the business owes to another business, organization, government, or individual; also called *debt*. (30) Responsibility for actions and costs. (31)

limited decision making. Consumer buying decision that is made with some research and planning. (17)

limited liability. The owners are only responsible for the amount of money that they invested when they bought shares of the stock. (52)

list price. Established price of a product, as published (listed) in a catalog, on a price tag, or in a price list. (32)

loan. Money that has been borrowed with a promise to repay it. (30)

logistics. General term for the handling of details of any complex activity. When used in reference to distribution, it means the details involved in physically moving goods; also used as a synonym for physical distribution. (27)

logo. Picture, design, or graphic image that is associated with a brand; can include the brand name. (22)

long-term goal. Large goal that will take a relatively long time to achieve. (47)

M

management. The function of business that includes all the activities required to plan, coordinate, and monitor a business. (2)

manager. Worker who directs the work of others and makes decisions. (48)

manufacturer brand. Brand created by a manufacturer for its own products; also called *national brand*, *regional brand*. (22)

manufacturing. Large-scale production process; usually takes place in large factories equipped with machines and run by many workers. (24)

marginal utility. Additional satisfaction you get when you use an additional unit of the same product. (32)

market. Group of people who want a product and are able to buy it. (4)

market coverage. Number of stores a retailer chooses to have in a specific geographic area. (26)

market demand. Sum of all the individual demands for a specific product, for a specific time period. (8)

market diversity. Term used to describe a market made of groups of people with different needs and wants. (14)

market economy. Economy in which individuals answer the economic questions and market forces are allowed to operate; also called *capitalism*, *capitalist economy*, *consumer economy*, *free enterprise*, *free market economy*, *private enterprise*. (7)

marketing. Dynamic activities that focus on the customer to generate a profitable exchange. (1)

marketing communication. Communication from an organization to its customers, potential customers, and the public; promotion. (36)

marketing concept. Approach to business that says that the way to make a profit is to focus on customer satisfaction. (3)

marketing mix. Plan of action for marketing a product; it consists of the decisions made about each of the Four Ps for that product—product, place, price, and promotion. (1)

marketing research. Gathering of information to make marketing decisions. (20)

marketing strategy. The selection of a target market and the development of a marketing mix to meet the needs and wants of the target market. (4)

market price. Actual price you pay for a product, after any discounts or coupons. (32)

market segment. Subgroup of a larger market; this subgroup has similar wants and needs for a particular product. (4)

market segmentation. Process of dividing a large market into smaller parts. (16)

market segment profile. Detailed description of the typical consumer in a market segment. (16)

market share. One competitor's percentage of the total sales in a specific market. (19)

market share leaders. Companies with the largest market shares. (19)

market size. Total sales per year for a specific product. (19)

market supply. Sum of all the individual suppliers' supply of a specific product, for a specific time period. (8)

mass communication. Communication that sends the same message to a large number of receivers. (34)

mass market. All the customers for a type of product considered together. (4)

mass marketing. Development of only one marketing mix for a specific product. (15)

mass production. Making large numbers of identical products for sale to large numbers of customers. (24)

media. In advertising, the physical means of carrying an advertising message, for example, newspapers, TV, and the Internet. (38)

media, the. The organizations and companies used to communicate with the public; includes companies that communicate via television and radio stations, wire services, newspapers, magazines, and the Internet. (34)

medium. Substance or technology that is used to carry a message. (34)

memo. Brief message sent to someone within your organization; short for *memorandum*. (49)

mental ownership. During the sales process, the attitude of the customer when he or she acts and speaks as if the product is already his or hers. (45)

merchandise. Goods to be sold directly to consumers. (28)

merchandise approach. Type of sales approach; you start with a comment about the product. (43)

merchandise presentation. The way merchandise is displayed for sale in a store. (40)

message. Information that you want to communicate. (34)

mixed economy. Economy in which both the government and individuals are involved in making economic decisions. (7)

moderate quality. The middle range of quality in products; it usually combines good quality materials with moderate prices. (21)

modified rebuy decision. Organizational buying decision to buy a familiar product but to research other vendors or slightly different products. (18)

money. A consistent item that people accept in exchange for goods or work. (2)

money order. Legal document that pays a specific amount of money to a specific person or business. (45)

monopoly. Exclusive control of a product by one company. (19)

motivate. To provide the internal push that results in action. (17)

motive. Internal push, based on needs, that causes a person to act. (17)

MSRP. Stands for *manufacturer's suggested retail price*; the price that the manufacturer recommends. (32)

multi-channel retailing. Use of more than one type of retail outlet within one company. (29)

multicultural society. Society consisting of people from many different cultures; also called *culturally diverse society*. (14)

N

natural resources. Raw materials; examples include soil, water, minerals, plants, animals, and climate. (6)

need. Something that is necessary for survival. (2)

networking. Process of making connections with people in the work world. (50)

net worth. Value of a company; also called *owner's investment*, *owner's equity*. (30)

new task decision. Organizational buying decision to buy a new product; this type of decision requires a great deal of research and thought. (18)

noise. Things that interfere with the communication process; also called *interference*, *distraction*. (34)

nonpersonal promotion. Promotion that communicates the same message to all potential customers. (36)

nonprice competition. Competition that is based on something other than price, such as product quality or customer service. (19)

nonprofit corporation. Legal entity, like a for-profit corporation; however, instead of profit, its main goal is to achieve something to benefit society; also called *nonprofit*, *nonprofit organization*, *not-for-profit organization*. (2)

nonsecure connection. Internet connection over which anyone can see any of the information. (29)

nonstore retailer. Business that sells directly to consumers through ways other than a retail store. (26)

nonverbal communication. Messages sent without words. (35)

O

offshore production. Manufacturing that is done in a foreign country. (24)

offshore sourcing. Buying items for company operations from a company outside the United States. (24)

online. Condition of being connected to the Internet or being available on the Internet. (29)

online media. Any form of advertising that is placed on the Internet. (38)

online promotion. Promotion that occurs via the Internet or the World Wide Web. (41)

operating expenses. Costs to keep a business running. (52)

opportunity cost. Value of the opportunity you did not choose. (6)

optimism. Expectation that things will turn out well. (51)

option. A feature that can be added to a product at the customer's request. (21)

order getting. Process of finding customers and then influencing them to buy your product. (42)

order processing. Receiving and filling orders. (27)

order taking. The recording of orders. (42)

organizational buyer. Person who buys products for a business; also called *buyer*, *merchandise manager*, *professional buyer*, *purchaser*, *purchasing agent*, *retail buyer*. (18)

out-of-frame ad. Animated ad that jumps around a Web page. (41)

outside sales. Selling that takes place outside the seller's place of business; salesperson often goes to the customer's home or place of business; includes trade shows. (42)

outsourcing. Hiring an outside company to do specific work. (27)

overselling. Promising more than the product or the business can deliver. (45)

P

paraphrasing. Restating what someone said in different words; one of the sales techniques to determine customer needs. (43)

parliamentary procedure. Process for holding a meeting so that the meeting is orderly and democratic. (51)

partnership. Business owned by a small number of people, usually two or three. (2)

peer pressure. Social influence that comes from the people your age with whom you interact daily. (17)

per capita GDP. A nation's GDP divided by the nation's population; tells you how much GDP there is for each person in the country. (9)

perishable. Characteristic of a product such that it cannot be stored for later use. (21)

permission promotion. Advertiser obtains permission from each customer to send him or her promotional messages. (41)

perpetual inventory. Consists of keeping a record (usually on computer) of the total number of each SKU in inventory, and then adding whenever new items are received and subtracting whenever items are sold. (28)

personal promotion. Promotion in which the marketer and the customer communicate in person, and the marketer can immediately customize the message; personal selling. (36)

personal selling. Process of helping customers find solutions to problems created by their needs and wants; the salesperson and the customer communicate in person, over the telephone, or over the Internet in real time. (42)

persuade. To try to change the behavior of the receiver. (34)

philanthropy. Actions that improve human welfare and spread goodwill. (5)

physical distribution. Physical movement of goods in the distribution channel; also called *logistics*. (27)

physical inventory. Consists of actually going into the storage and sales areas and counting every item. (28)

place. Marketing activities involved in making products available to customers; includes distribution. (1)

place utility. Type of utility added to a product when a business makes products available at convenient places. (3)

plan. List of steps that lead to accomplishment of a goal; also called *action plan*. (47)

pop-under ad. Online ad that hides “under” or “behind” a Web page; it appears when the viewer leaves the Web site. (41)

pop-up ad. Online ad that pops into view after a Web page has appeared. (41)

portfolio. Collection of items that show your accomplishments. (50)

positioning. Actions marketers take to create a certain image of a product in the minds of customers. (22)

possession utility. Type of utility added when a business makes it easier for a customer to acquire a product. (3)

postsecondary. After high school. (48)

potential customer. Person or business that may need the goods or services you offer; also called *prospect*. (43)

preapproach. First step of the approach stage of the sales process; consists of tasks that are performed before contact is made with a customer. (43)

prejudice. Hostility toward a group of people, often based on a negative stereotype. (14)

premium. Item given to the customer for free or at a reduced price along with the purchase of a product. (36)

premium quality. The highest level of excellence in products; it usually uses the highest quality materials and has the highest price. (21)

presell. To influence a customer positively toward a product or create demand for a product before the customer actually enters a selling situation (such as a retail store). (38)

presentation. Formal speech that presents information to one or more receivers. (49) Also, second stage in sales process. (42)

price. Amount of money requested or exchanged for a product. (1)

price competition. Competing on the basis of price. (19)

price discrimination. Situation in which a company plays favorites by charging lower prices to some companies for the same products. (32)

price-fixing. Situation in which a group of competitors gets together and sets (fixes) the price for a specific product; they then all agree to sell that product for the same price. (32)

pricing objectives. Goals that tell what a marketer wants to achieve through pricing. (33)

primary data. Data collected for and about a specific business. (20)

private brand. Brand owned by a reseller; also called *store brand*, *distributor brand*, *dealer brand*, *private label brand*. (22)

private enterprise. Another term for *market economy*. (7)

procrastination. Postponing doing something that should be done now. (51)

producer. Business that makes goods and services. (4)

product. Anything that can be bought or sold; includes goods, services, and ideas. (1)

product brand. Brand of a specific product, in contrast to a corporate brand. (22)

product category. Group of similar products; like a product line but made by many companies; for example, running shoes is a product category. (25)

production. Any activity related to making a product (good, service, or idea). (2) The process of turning economic inputs into economic outputs. (6)

productivity. Amount of product a worker produces per hour (product/hour). (8)

product life cycle. Stages that a product or a product category goes through from its beginning to its end. (25)

product line. Group of similar products, made by one company. (25)

product management. Developing strategies for a company's product mix. (25)

product mix. All the types of products that a company sells. For a retailer, the product mix is the variety of products that the store carries. (25)

product promotion. Marketing communication that focuses on the product and selling the product, in contrast to institutional promotion. (36)

profit. Money that a business has left after all the expenses and costs of running the business are paid. (2)

profit motive. Drive to earn more profit. (8)

promotion. Process of telling people about the product and the company that offers it. (1) Also, all communications from an organization to its customers, potential customers, and the public; marketing communication. (36)

promotional advertising. Advertising that focuses on products; also called *product advertising*; part of product promotion. (38)

promotional campaign. A series of coordinated promotional activities designed to achieve a specific goal. (37)

promotional mix. Combination of promotional elements—personal selling, advertising, sales promotion, and public relations—used in a promotion. (37)

prospect. Person or business that may need the goods or services you offer; also called *potential customer*. (43)

prospecting. Searching for potential customers. (43)

prosperity. Economic good times, when people are doing well financially. (10)

prototype. Working model of the actual product. (23)

psychographic segmentation. Segmenting a market based on psychological characteristics of customers. (16)

psychological influences. Influences that come from within a person. (17)

psychological pricing. Set of pricing techniques used to create an image of a product and to entice customers to buy. (33)

public good. A good or service that has the following aspects: it benefits everyone in the society; it is difficult to monitor the use of the good; it is difficult to charge for the use; and there is usually no way to prevent use of the good whether the user pays for it or not. Examples include roads, education, and national defense. (11)

publicity. Information about a company and its products that appears in the media; however, the company does not pay the media to carry the message and therefore has no control over the information in the story. (36)

public relations. Promotional activities designed to create goodwill between a company and the public. (36)

public service advertisement (PSA). Advertisement whose goal is to publicize information that will contribute to human welfare. (5)

pull strategy. Promotional efforts are focused on the consumer. (37)

purchase order (PO). Document authorizing the purchase and delivery of certain goods at specific prices and times. (27)

purchaser. Person who buys goods and services for use within the company; also called *purchasing agent*. (18)

purchasing agent. Person who buys goods and service for use within the company; also called *purchaser*. (18)

purchasing power. Amount of goods and services you can buy with a specific amount of money. (9)

push strategy. Promotional efforts are focused on the intermediaries—wholesalers, distributors, and retailers. (37)

Q

quality. The level of excellence in something. (21)

quality service. Service that meets customers' needs and meets the standards for service set by the company. (46)

questionnaire. A series of questions used to get information from people. (20)

quota. Limit on the amount of a specific product that can be brought into a country. (13)

R

rate of change. An indicator that tells you how much something changes over time; also called *percent change over time*. (9)

rebate. Return of a portion of the money paid for a purchase. (36)

receiver. Person to whom a message is sent; also called *audience*. (34)

receiving. Actual exchange of goods between the vendor's transporting agent and the retailer. (28)

recession. Period of economic contraction. (10)

recovery. Period after a recession during which the economy is expanding. (10)

reference. Person who is willing to talk with employers about your job qualifications and personal qualities. (50)

reference group. Group of people who influence a consumer's buying decisions. (17)

relationship marketing. Approach to marketing that focuses on building long-term relationships with customers. (45)

reseller. Business that buys finished products to resell at a profit. (4)

responsibility. Quality of being reliable, following through on your promises, and performing tasks assigned to you. (5)

resume. Written document that lists your qualifications for a job, including education and work experience. (50)

retailer. Business that buys products to resell to final consumers. (25)

retail sales. Sales to the final consumer; usually refers to store sales but may include nonstore sales to consumers; also called *consumer sales*. (42)

return on investment (ROI). Ratio that tells you how much the company earned as a percentage of the investment it made to earn the money; ROI is often used to indicate the profitability of a company. (33)

revenue. Money that a business takes in for the products it sells; also called *revenues*, *income*, *sales*, *receipts*. (30)

risk. Possibility of loss, damage, or injury. (31)

risk assessment. Process of analyzing a business for possible risks. (31)

robotics. Equipment that can be programmed to automatically do mechanical tasks, with little or no input from human workers. (24)

role. A set of responsibilities and expectations that go with an aspect of your life. (51)

routine buying decision. Consumer buying decision that is made quickly and without much thought. (17)

S

sales process. A series of steps that a salesperson goes through to help the customer make a satisfying buying decision. (42)

sales promotion. Marketing activities designed to entice customers to buy a company's products. Examples include coupons, contests, free samples, and gift-inside. (36)

sales representatives. Salespeople in B2B sales, *sales reps* for short. (42)

sales support. People behind the scenes who help sales representatives. (42)

saturated market. Market in which most of the potential customers who need, want, and can afford a product have bought it. (25)

scarcity. Condition in which there are not enough resources to meet needs. (6)

search engine. Software that searches the Web to find Web sites on your topic. (29)

secondary data. Data collected for someone else or for nonmarketing reasons, but are available for you to use. (20)

secret shopper. Person hired by a company to visit its place of business and observe the quality of service; also called *mystery shopper*. (20)

secure connection. Internet connection that uses encryption; no one else can see your information when you use a secure connection. (29)

security. Actions taken to prevent crime and to protect the safety of people and property. (31)

segmentation variable. Customer characteristic that is used to segment a market. (16)

self-assessment. Process of learning about yourself. (47)

self-service presentation. Merchandise presentation in which all of the merchandise for sale is on the selling floor. (40)

selling points. Features and benefits of a product that will most likely convince a customer to buy the product. (44)

sender. Person who has a message to communicate. (34)

service. Action that is done for you. (1) Services are intangible, inseparable, and perishable. (21)

service approach. Type of sales approach; starts with the phrase "May I help you?" (43)

service mark. Same as a trademark, except that it identifies and distinguishes the source of a service. (22)

service quality. Ability of a particular service to satisfy a customer. (46)

shipping. Process of transporting products. (27)

shoplifter. Person, posing as a customer, who steals displayed goods from a store. (31)

shoplifting. Stealing of merchandise from a store by a person posing as a customer. (28)

short-term goal. Relatively small goal that is to be achieved in the near future. (47)

signature. Words that identify the sponsor of the ad. (38)

site. Another term for *location*. (26)

situational influences. Influences that come from the environment. (17)

slogan. Phrase or sentence that summarizes some essential aspect of the product; also called *tag line*. (22)

social class. Ranking of people based on wealth, education, ancestry, and power; also called *socioeconomic class*. (14)

social influences. Influences that come from the society in which you live. (17)

social responsibility. Responsibility that each person has not to harm another person; includes the duty to help others and to improve society in general. (5)

sole proprietorship. Business owned by one person. (2)

sourcing. Process of finding and obtaining items needed for company operations. (24)

spam. E-mail that you did not ask for, that you do not want, from sources unknown to you; junk e-mail. (41)

specialty media. Useful or decorative items that carry advertising messages; also called *specialty advertising*, *promotional products*. (38)

sponsorship. Marketing activity in which the sponsor pays (in part or in whole) for an activity such as a sporting event, cultural performance, or charity event. (37)

standard of living. How much the average person in a country has; measured by per capita GDP. (9)

start-up costs. Costs to start a new business. (52)

stereotype. Over-simplified view of a group of people; often takes one characteristic, exaggerates it, and assumes that all members of a group have that characteristic. (14)

stocking. Moving merchandise from storage to the sales area. (28)

stock-keeping unit (SKU). Smallest unit of an item for which sales and stock records are kept. (28)

stock market. A marketplace where stocks are bought and sold. (9)

stockroom. Storage area within a store's building, usually in the back of the store. (28)

stock turnover. Number of times the average inventory on hand is sold and completely replaced in a specific time period, such as a year; also called *inventory turns*. (28)

storefront. Store exterior; it includes the store sign, display windows, entrances, outdoor lighting, landscaping, and the building itself. (40)

store image. Idea of a store in people's minds. (40)

store layout. Plan that shows how the space in a store will be used. (40)

straight rebuy decision. Organizational buying decision that requires little research and thought. (18)

streaming media. Technology that enables files of audio and video to be viewed while the files are being transmitted. (41)

strong dollar. A dollar that is worth relatively more of a certain foreign currency. (12)

suggestion selling. Technique of suggesting additional items to go with merchandise requested by a customer. (44)

supplier. Business that sells to organizational buyers (businesses); also called *vendor*. (18)

supply. Quantity of a specific product that a supplier is willing to supply at a certain price. (8)

supply chain. Route a good takes from its original source to its final customer; also called *channel of distribution*. (26)

surveillance. Process of closely observing what is going on, in order to prevent crimes. (31)

survey. Organized study in which a researcher asks questions of a number of people. (20)

T

tangible. Describes an object that exists physically and can be touched. (21)

target market. The specific group of customers whose needs a company will focus on satisfying. (1)

target marketing. Development of a unique marketing mix for a market segment (target market). (15)

tariff. Tax on an imported product; also called *duty*, *customs duty*, *import duty*. (13)

tax. Money collected by the government from its citizens to pay for activities of the government. (11)

team. Two or more people who work together to achieve a common goal. (51)

tech prep. Career preparation program that combines the last two years of high school with two years of postsecondary education. (48)

technology. Use of tools to improve human life. (6)

telemarketing. Personal selling done over the telephone. (42)

terms of sale. Conditions governing a sale. (27)

test marketing. Introducing a new product to a small portion of the target market, for example one city. (23)

time utility. Type of utility added to a product when a business makes products available at the times that customers want them. (3)

title. Legal document that verifies the owner of a good. (26)

tone. Feeling conveyed to the receiver from the words you choose. (35)

ton-mile. Movement of one ton of freight one mile. (27)

trade agreement. Document that establishes rules for trading between two or more nations. (13)

trade allowance. Discount or money paid to the intermediary who buys the product. (36)

trade association. Organization of people in a specific type of business. (20)

trade barrier. Anything that interferes with trade. (13)

trade deficit. Negative balance of payments; income from exports minus income from imports is negative; also called *unfavorable balance of trade*. (12)

trademark. Another term for brand, and refers to the word, phrase, symbol, or design, or a combination of words, phrases, symbols, and designs that identifies and distinguishes the source of goods. (22)

trade show. Exhibit of products of interest to a specific industry. (36)

trade surplus. Positive balance of payments; income from exports minus income from imports is positive; also called *favorable balance of trade*. (12)

trading bloc. Group of countries that join together to trade as if they were one country. (13)

trading up. Technique of showing products of better quality or with more features than the customer requested. (44)

traditional economy. Economy in which the economic questions are answered by the elders based on the society's traditions. (7)

transaction. Exchange of payment and product. (45)

transition economy. Economy that is changing from command to a more market economy. (7)

transmission. Sending of a message. (35)

transnational corporation. Corporation that has major offices and manufacturing plants in several countries, annual sales in the billions of dollars, and a large percentage of those sales from foreign countries. (13)

transportation. Process of physically moving products from buyer to seller. (27)

trend. Direction of movement of consumer behavior. (20)

trial close. Attempt to close a sale. (45)

trial run. Trying out a service on a few selected customers to make sure that everything runs smoothly. (23)

typography. Visual, nonverbal aspect of words printed on a page. (38)

U

unemployed. Refers to those who do not have a job but want one and are actively looking for one. (9)

unemployment rate. Percent of the labor force that does not have a job but is looking for one. (9)

unit pricing. Displaying the price of an item based on a standard unit of measure, such as an ounce or a pound. (33)

universal product code (UPC). Type of bar code; it consists of black bars and white spaces of varying thicknesses, and a set of numbers; the standard UPC has 12 numbers. (28)

unlimited liability. The owner himself or herself is responsible for all the debts and actions of the business. (52)

upward spiral. Process that starts moving upward slowly, and then increases its upward movement faster and faster. (10)

U.S. Small Business Administration (SBA). An agency of the U.S. government created by Congress in 1953 to help America's entrepreneurs form successful businesses. (52)

utility. Ability of a product to satisfy human wants and needs. (3)

V

value. How much something is worth. (2)

value quality. An adequate level of quality in products; it combines the lowest price with the best possible quality at that price. (21)

vendor. Business that sells to organizational buyers (businesses); also called *supplier*. (18)

viral marketing. Promotional message that is set up so that recipients of the message pass it on to others. (41)

visual merchandising. Physical presentation of merchandise and the design of a place of business for the purpose of increasing sales. (40)

voice mail. Technology for leaving a message when no one is available to answer a telephone. (49)

W

want. Something you desire but you could function without. (2)

want ad. Written advertisement for a job, placed by the company that needs the worker. (50)

warehouse. Building for storing large quantities of products. (27)

warranty. Written document stating the quality of a product and promising to correct specific problems that may occur. (21)

weak dollar. A dollar that is worth relatively less of a certain foreign currency. (12)

Web address. Unique set of letters, numbers, and symbols used to identify and locate a Web site. (29)

Web page. Smallest unit of information that can be accessed on the Web. (29)

Web site. One or more Web pages from the same source connected by hyperlinks. Individuals, companies, organizations, governments, and the military can have Web sites. (29)

wholesaler. Business that buys products from a producer, and then sells them to another business; also called *distributor*. (26)

window display. Type of display that appears in store windows that face the street or the walkways of a mall. (40)

word-of-mouth publicity. Informal conversation people have about their experience with a business and its products. (17)

work habits. Basic, routine actions that you carry out every day at work. (51)

work values. The aspects of work that are most important to you; areas in which to consider work values are work environment, activity level, control, and rewards. (47)

World Trade Organization (WTO). Organization whose purpose is to administer WTO trade agreements, provide a forum for trade negotiations, handle trade disputes, and provide technical assistance and training to developing countries. (13)

World Wide Web (Web). Network of information sources that is available over the Internet. (29)

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